CHAPTER – II
COMPLIANCE AUDIT

Chapter-II
Compliance Audits

Panchayati Raj Department

2.1 Implementation of recommendations of Fourth State Finance Commission in PRIs

2.1.1 Introduction

In pursuance of Article 243-I of the Constitution of India and Section 168 of the Bihar Panchayat Raj Act (BPRA), 2006, Government of Bihar (GoB) constituted the Fourth State Finance Commission (Fourth SFC) in June 2007 to review the financial position of Panchayats. The Fourth SFC made recommendations on principles that should govern the distribution between the State and the Panchayats, of the net proceeds of the taxes, duties, tolls and fees leviable by the State. The Fourth SFC submitted (June 2010) 17 recommendations to strengthen the Panchayati Raj Institutions (PRIs) to enable them to function as local self-government.

The audit covering the period 2011-16 was conducted during June to September 2016 through a test-check of records in four Zila Parishads (ZPs), 16 Panchayat Samitis (PSs) and 49 Gram Panchayats (GPs) under the PSs.

The audit commenced with an Entry Conference on 9 May 2016 with the Secretary, PRD, GoB. Exit Conference was held on 3 February 2017 with the Secretary of the department wherein audit findings were discussed and the replies of the department have been suitably incorporated in the Report.

Audit findings

The State Government accepted all the 17 recommendations made by Fourth SFC in respect of the PRIs ***(Appendix -2.1).*** However, four recommendations were implemented *in toto*, ten recommendations were implemented with modifications, whereas no action was taken on three recommendations.

2.1.2 Recommendations implemented in toto

The Fourth SFC made four recommendations with regard to allocation of funds to the PRIs and the Urban Local Bodies and its subsequent release to the three tier PRIs as detailed under:-
Out of the total devolution as share in State taxes to Local Bodies 70 *per cent* should be for PRIs and 30 *per cent* for the ULBs.
Among the PRIs the total devolved share in State taxes should be further shared in the proportion of 70 *per cent* to GPs, 20 *per cent* to PSs and 10 *per cent* to ZPs.
The 10 *per cent* share of the ZPs should be distributed among the ZPs on the single criterion of population of the district.
The 70 *per cent* share of the GPs should be distributed equally among all GPs.

Audit observed that the above recommendations were accepted by the State Government in *toto*.

2.1.3 Recommendations implemented with modifications

2.1.3.1 Release of funds to Local Bodies by the State Government

The Fourth SFC recommended that 7.5 *per cent* of the State's tax revenue net of collection costs should be devolved to the local bodies on the basis of the audited figures of that financial year.

Audit observed that as per the Fourth SFC recommendation the State Government had to release ₹ 4026.55 crore during 2010-15 to the PRIs. The details of grants released and shortfall are given in **Table:-2.1** and **Chart:-2.1** below:

Table-2.1: Status of State own Tax Revenue and amount released to the PRIs

(₹in crore)

Sl. No.	Particular	2010-11	2011-12	2012-13	2013-14	2014-15	Total
1.	Total State Revenue from own sources	9869.85	12612.10	16253.08	19961	20750	79446.03
2.	*Less*: Cost of Collection	439.33	495.03	542.24	624.88	648.49	2749.97
3.	Net Revenue	9430.52	12117.07	15710.84	19336.12	20101.51	76696.06
4.	Amount to be released to PRIs as per recommendation	495.10	636.15	824.82	1015.15	1055.33	4026.55
5.	Actual Release to the PRIs	0	400.31	493.43	636.07	50.68[19]	1580.49
6.	Short Release of grant (4-5)	495.10	235.84	331.39	379.08	1004.65	2446.06

Chart-2.1

*(**Source:** Information furnished by the Finance department and PRD, GoB)*

Above **Table-2.1** and **Chart-2.1** show that against the recommendations of ₹ 4026.55 crore grants, only ₹ 1580.49 crore[20] (39 *per cent*) was released to the PRIs as the State Government decided to release 7.5 *per cent* share of SOTR to local bodies since 2011-12. It was also observed that during 2010-11, no funds were released by the State Government, though ₹ 495.1 crore was to be released as per the recommendation of Fourth SFC.

The Deputy Secretary, Finance department stated (October 2016) that it was the considered decision of the State Government to release the grant on net tax collected two years back. The Secretary clarified that it was practically not

[19] *The Finance department, GoB did not release the allotted share of the PRIs as the PRD failed to submit the proposal.*

[20] *₹ 953.97 crore for high priority sectors and ₹ 626.52 crore for other development works and salary*

possible to release the funds on the basis of current year SOTR. The reply was not acceptable in the light of Fourth SFC recommendations as the PRIs received ₹ 2446.06 crore less for execution of high priority works and for spending on purposes consistent with the duties and functions envisaged in the Act.

2.1.3.2 Release of share of Local Bodies in two half yearly instalments

As per Fourth SFC recommendation, grants to PRIs were to be released in two instalments. First instalment was to be released by not later than 30 September and the balance before the end of the financial year.

Audit observed that, in two years (2011-13) out of the three years of Fourth SFC period (2010-15), grants were released in one instalment at the fag end of the year. As a result, no works were taken up by the sampled PRIs during 2011-12 and execution of works got delayed as grants of a particular year were utilised during next year and consequently, ₹ 5.09 crore remained unspent with test checked PRIs even after lapse of Fourth SFC period.

2.1.3.3 Release of funds to Panchayat Samitis

As per Fourth SFC recommended that the 20 *per cent* share of Panchayat Samitis should be distributed among the PSs on the criterion of 80 *per cent* weight to population and 20 *per cent* weight to number of BPL families.

Audit observed that in Nalanda and Saran districts, funds were not transferred to the PSs as per the criteria of 80 *per cent* weight to population and 20 *per cent* weight to number of BPL families. Instead, the funds were transferred as per the population of the PSs. As a result, ₹ 20.94 lakh meant for 22 PS[21] were transferred to the other 18 PS[22] that did not meet the criteria.

The CEO, ZP Nalanda and the CEO, ZP Saran accepted the audit contention.

2.1.3.4 Release of funds under high priority sectors

Six[23] activities were identified as high priority for PRIs. These activities can primarily be financed through devolution amount of share in State taxes. The estimated cost of these programmes is ₹ 1,590 crore. The Fourth SFC recommended allocation of fund of ₹ 316.72 crore each year under the five[24] high priority sectors to 8,463 GPs and ₹ 1.27 crore to 531 PSs for sanitation[25].

Audit observed, that against recommendation of ₹ 1,589.95 crore for GPs (₹ 1,583.6 crore) and PSs (₹ 6.35 crore) for the period 2010-15, only ₹ 667.78 crore was released to GPs equally. This happened as the State Government released ₹ 953.97 crore against recommended amount of ₹ 1,589.95 crore and due to allocation of GP's share to ZP and PS of in the ratio of 10 *per cent* (₹ 95.39 crore) and 20 *per cent* (₹ 186.98 crore) respectively. Thus, there was not only a short release of ₹ 635.98 crore under the high priority sectors but funds

21 *Nalanda-11 PS and Saran-11 PS*
22 *Nalanda-9 PS and Saran-9 PS*
23 *Drinking water, Brick Soling, Drain, Sanitation, Library and Street lighting*
24 *Two activities Brick Soling and Construction of drain clubbed as one activity*
25 *For cleaning of drains, ponds public roads, wells and similar functions*

amounting to ₹ 282.38 crore[26] meant for the exclusive use of the GPs were also distributed to the ZPs and the PSs. As a result, GPs failed to execute works as per its discretion regarding selection of villages where development works were required as the ZPs and the PSs executed works as per their own plans.

The Monitoring Officer, PRD replied that in comparison to GPs, the PSs and ZPs were being allocated less amount and there was demand for excess amount from time to time. Further, the department is considerate to the three tier PRIs and as such takes decisions to provide funds. The reply is not tenable as the recommendation of Fourth SFC was not followed.

Execution of schemes under high priority sector

The GoB released funds of ₹ 23.01 crore to the sampled units under five priority sectors which were to be utilised in prescribed ratio [27]of grant as per Government directions. The head wise utilisation of the funds under the five priority sectors during the period 2011-16 is given in ***Appendix-2.2*** and its abstract is given in **Table 2.2** below:

Table-2.2: Execution of schemes under the high priority sector

(₹in crore)

Sector of work	Prescribed Percentage	Grant available	Expenditure Amount	*Per cent* utilised against grant available	No. of Units with no utilisation
Drinking Water	15.75	3.62	9.44	41.02	4
Street lighting	16.25	3.74	1.62	7.04	45
Brick soling and Drains	61.20	14.08	13.62	59.19	14
Library	3.2	0.73	0.02	0.09	56
Sanitation	3.6	0.83	0	0	69
Total	**100**	**23**	**24.7***		

*(**Source**: Information furnished by PRIs)*

* Expenditure includes high priority grant, interest and other development grant.

It was evident from the **Table- 2.2** above that:

The prescribed ratio of grants was not adhered in any of the sector of works. In drinking water head 41.02 *per cent* and in street lighting 7.04 *per cent* was utilised instead of the prescribed limit of 15.75 *per cent* and 16.25 *per cent* respectively.

Audit also observed that 45 to 69 test checked units failed to incur any expenditure on any of the three priority sectors viz. street lighting, library and sanitation.

During physical verification of the schemes, Audit noticed that 37 works for hand pump involving ₹ 8.47 lakh were found executed in private premises in two PSs and 11 GPs ***(Appendix-2.3)*** in contrary to Government's instruction.

Physical verification of the schemes also revealed that 39 works[28] of hand pump and solar lights amounting to ₹ 10.46 lakh were found out of order in three PSs

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26 *₹953.97 crore*30 per cent – ₹3.81 crore*

27 *Drinking water-16 per cent, Brick Soling and drains-61 per cent, Sanitation-4 per cent, Library-3 per cent and Street lighting-16 per cent*

28 *15 hand pumps amounting to ₹3.40 lakh and 24 solar lights amounting to ₹ 7.06 lakh*

and 18 GPs ***(Appendix-2.4)***. The above facts were confirmed during beneficiary survey.

2.1.3.5 Grants for Capacity building

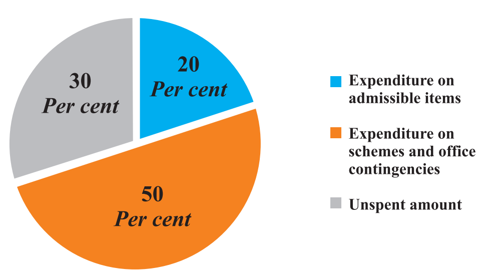
The Fourth SFC recommended that grants at ₹ 15 lakhs, ₹ one lakh and ₹ two lakhs per annum were to be given to each ZP, PS and GP respectively for capacity building (₹ 901.35 crore over the five year period of 2010-15 at ₹ 180.27 crore per annum).

Audit observed that the State Government released ₹ 538.11 crore to the PRIs for three years (2011-14) only for Account maintenance and Capacity Building[29] to fulfil the basic responsibility of planning, budgeting, spending, accounting and reporting against the recommendation of ₹ 901.35 crore for 2010-15.

The PRD replied that due to ban on release of grants by the Finance department, the amount could not be allocated to PRIs while Finance department replied that the PRD failed to submit proposal for releasing of grants. Thus, PRIs were deprived of the grants due to lackadaisical approach of the departments.

Test checked PRIs received ₹ 5.22 crore as untied grants out of which only 20 *per cent* was expended on admissible works. Thirteen PSs and 22 GPs failed to expend any amount under the untied head while in the remaining units, the expenditure percentage ranged from one to sixty seven *per cent.*

Chart-2.2
Expenditure incurred out of Untied grant



Further, contrary to the Fourth SFC recommendations and Government directives Audit noticed that test checked PRIs expended untied grants of ₹ 2.60 crore *(50 per cent)* on execution of schemes and office contingencies instead of spending the amount on account maintenance and capacity building while grants amounting to ₹ 1.56 crore *(30 per cent)* remained unspent in 60 test checked units as depicted in **Chart-2.2** and details have been given in ***Appendix -2.5***.

The PRIs replied that expenditure was incurred on office contingencies due to paucity of fund in contingency head. There was no clear direction for expenditure from GoB and works were executed as per the requirement of the PSs and GPs. The reply was not tenable as the grant sanctioning letter had clearly indicated the purposes for which the fund was to be utilised.

During physical verification, Audit noticed that in six[30] GPs ₹ 10.80 lakh was incurred on purchases of computer and its related parts and chairs and tables but these items were being used for private purposes by *Mukhiya*/Ex-*Mukhiya* of the GPs.

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29 *Purchase and maintenance of Computer, printer, Scanner, Fax Machine, Telephone, Internet connection, Computer Table and related equipment's and payment to the service of outsourced employees for the audit work*

30 *GPs-Attanagar, Agauthar Sundar, Bhaisaha, Bhaluari. MeghiNagma and Nipaniya*

	
Purchase of computer set in custody and private use of the Ex-*Mukhiya* Gram Panchayat Atanagar under Panchayat Samiti Isuapur in Saran District (Date of Photography 5 August 2016)	Purchase of computer set in custody and private use of the Ex-*Mukhiya* Gram Panchayat Agauthar Sunder under Panchayat Samiti Isuapur in Saran District (Date of Photography 5 August 2016)

2.1.3.6 Utilisation of untied grants by ZPs

The Fourth SFC recommended that the untied amounts left after fulfilment of the requirement for priority sectors were to be spent on purposes consistent with the duties and functions stated in the Act and was not to be utilised for payment of salary or purchase of vehicles without previous sanction of the State Government.

Audit scrutiny revealed that for PSs and GPs, the State Government released grants of ₹ 518.27 crore during 2011-14 in the ratio of 20:70 of the remaining portion of share of PRI in SOTR in the form of other development grant and ZP share of ₹ 108.25 crore was released for payment of salaries and retirement benefits during 2011-15 as per the population of the district instead of on other development heads. As a result, the ZPs failed to receive additional funds to be spent on purposes consistent with the duties and functions stated in the Act.

2.1.3.7 Devolution of Functions, Funds and Functionaries (3F)

The Fourth SFC recommended that transfer of 3F should be expedited. It has to be done in such a manner that regular government employees are not put to any hardship and work of other departments, if done by such employees also does not suffer. The panchayats should also be in a position to exercise effective control over the functionaries transferred.

Audit observed that the departments of GoB had transferred (July to September 2001) 79 functions to GPs, 60 functions to PSs and 61 functions to ZPs and prepared activity mapping[31]. But the process so far on department wise and subject wise activity mapping was unsatisfactory. Parastatal Bodies[32] were also carrying out the functions devolved to PRIs. Though funds available to the PRIs from various sources were grossly inadequate for their assigned functions, they were not able to utilise even that due to capacity constraints. Staff was answerable to their respective departments and the PRIs did not have adequate staff to discharge the devolved functions.

In the test checked four ZPs, 81 *per cent* posts were vacant whereas in GPs under test checked 16 PSs, 57 *per cent* post of Panchayat Secretary was vacant as of

31 *Activity mapping defines tier wise performance of devolved functions by PRIs.*
32 *Bodies owned and controlled wholly or partly by the Government.*

March 2016. Block staff was in additional charge of PSs as no separate cadre was created for PS.

Thus, it was clear that devolution of 3F was not effective. The Secretary, PRD stated that shortage of manpower was the main obstacle in achieving the goals of devolution and steps were being taken to fill the vacant posts by June 2017.

2.1.3.8 Payment of salaries to the employees of the PRIs

The Fourth SFC recommended that expenditure on current salary of employees working against sanctioned posts was to be borne by the Government for another five years without any tapering.

GoB released grants of ₹ 108.25 crore for payment of salary to ZPs in the State for four years (2011-15) only on the single criterion of the population of the district against actual requirement as per men-in-position of the ZPs.

In the four test checked ZPs, ₹ 15.34 crore was released against the total salary demand of ₹ 29.78 crore for the period 2011-15. As a result, GoB grants could meet only 39 to 70 *per cent* of the salary demand of employees in the four test checked ZPs and the remaining ₹ 14.44 crore of salary demand was met by the ZPs out of its own sources as detailed in the **Table 2.3 and Chart-2.3** below:

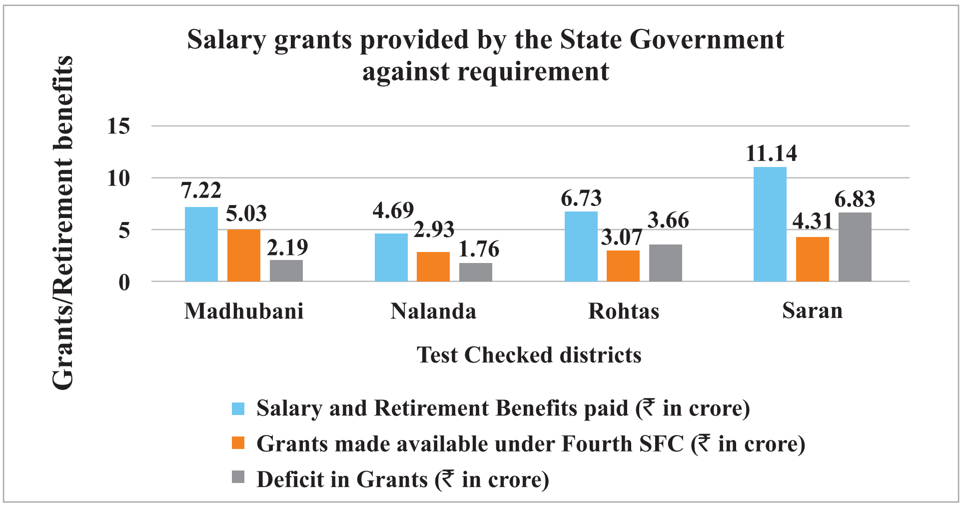
Table-2.3: Statement showing payment of Salary and Retirement benefits

(₹in crore)

District	Salary and Retirement Benefits paid	Grants made available under Fourth SFC	Deficit in Grants	Percentage of Grant available	Percentage of Deficit
Madhubani	7.22	5.03	2.19	69.63	30.37
Nalanda	4.69	2.93	1.76	62.44	37.56
Rohtas	6.73	3.07	3.66	45.62	54.38
Saran	11.14	4.31	6.83	38.68	61.32
Total	**29.78**	**15.34**	**14.44**		

*(**Source**: Information furnished by the Zila Parishad and Grant sanctioning letter PRD, GoB)*

Chart-2.3



*(**Source-** Information furnished by the Zila Parishad)*

This hampered ZPs to utilise their own sources in creation of new assets and become financially self-reliant as discussed in **para 2.1.4.2** of the report.

The Monitoring Officer, PRD replied that as per Finance department resolution, 10 *per cent* share was to be released to the ZPs as per population of the districts. Further, ZP was to make arrangement of salary of staff out of its own sources and that salary was not provided to ZP as compulsion but assistance.

The reply was not tenable as Fourth SFC had recommended payment of salary to ZP staff for five years without any tapering.

2.1.3.9 Payment of Retirement Benefits

The Fourth SFC recommended that the arrears of retirement benefit to employees of local bodies should be cleared by giving a one-time lump sum grants-in-aid.

Audit observed, that no such grant was released to the PRIs by the State Government during 2010-15. Instead the State Government directed the PRIs to pay retirement benefits out of the salary grants released. As a result, retirement benefit could not be paid and there was considerable amount of arrears on this account. Against an allotment of ₹ 7.96 crore (2011-15) for salary and retirement benefits to ZP Madhubani and Nalanda, ₹ 92 lakh remained unspent till the end of March 2016. However, a sum of ₹ 94 lakh was outstanding as retirement dues of 20 retired employees (January 2011 to June 2015) in the two ZPs.

The Additional Chief Executive Officer (ACEO), ZP Nalanda stated that action was being taken for payment of the retirement benefits.

2.1.3.10 Adoption of accounting formats for PRIs

The Fourth SFC recommended that the accounting formats prescribed by C&AG should be adopted and accounting manuals be finalised in consultation with Accountant General. It was also recommended that the possibility of simplifying the formats may also be explored.

PRD, GoB notified (September 2010) that PRIs should maintain their accounts in Model Accounting System (MAS) in eight formats from April 2010 as prescribed by the C&AG of India through effective roll out of Panchayati Raj Institutions Accounting Software.

However, it was observed from the records maintained by the PRD that out of eight data formats, only three were generated upto to March 2015 and five formats were not maintained as accrual basis of accounting required was not adopted by PRIs and thereafter, no formats in MAS were maintained. As a result, financial statements of the accounts of PRIs were not prepared and actual status of assets of PRIs was not ascertainable.

Further, even after 10 years of enactment of the BPRA, 2006, new Accounting Rules were not framed by the GoB and the provisions of BPRA, 1947 and PS and ZP (Budget and Accounts) Rule, 1964 were being followed. It was noticed that, the test checked PRIs did not maintain even the aforesaid three data formats.

Audit scrutiny of the test checked units also revealed the following irregularities in maintenance of accounts:

Grant of ₹ 17.83 crore for transfer to PSs and GPs was not entered in the Cash Book by the ZP Madhubani. It was observed that a lump sum entry of the grant was made in an abstract prepared for the month of July 2013 to February 2014. Thus, Cash Book did not depict the actual status of receipts and expenditure during the period. The CEO, ZP Madhubani accepted the findings and assured that this would not be done in future.

In ZP Saran, a total sum of ₹ 7.94 lakh was expended from untied grant Cash Book during 13 December 2013 to 25 January 2014 but the said amount was debited from the bank account (Punjab National Bank A/c no.-434517) maintained for high priority sectors grant instead of bank account (A/c no.-455404) specially maintained for untied grant. As a result, three works of high priority sectors could not be completed due to requirement of additional funds. In reply, the CEO, ZP Saran accepted the findings and assured that the amount would be transferred to high priority sector bank account.

There was a difference between balance in bank pass book and Cash Book balance by ₹ 38.59 lakh in 9 PSs and 15 GPs during 2011-16 which was not reconciled as on 31 March 2016 ***(Appendix-2.6)***. The unreconciled differences were fraught with risk of misuse of funds. Executive Officer of PSs and the Panchayat Secretaries of the GPs concerned replied that difference between Cash Book and bank balance would be reconciled.

2.1.4 Recommendations not implemented by the Government

2.1.4.1 Grants-in-aid to PSs and ZPs

The share in State taxes followed by the grants-in-aid to PSs and ZPs shall be firstly put to use in filling the gaps in the actual cost of execution of schemes identified as priority activities. The Fourth SFC guidelines and State Government directives specified the purposes[33] for which funds under Fourth SFC were to be utilised.

Audit observed, that grants were not released to ZP and PS for the purposes specified in the guidelines of Fourth SFC/ directives of the Government. However, out of GPs share under high priority sectors amount was released to ZPs and PSs.

During test- check it was observed that ZP Madhubani and ZP Rohtas incurred expenditure of ₹ 1.39 crore on 36 inadmissible works during 2012-16 ***(Appendix- 2.7)*** out of GP share.

Regarding execution of inadmissible item of works the CEO, ZP Madhubani replied that works were executed as per recommendation of the elected members of the ZP. The reply was not tenable as Government's directives were violated.

2.1.4.2 Financial Self-reliance of PRIs

The Fourth SFC recommended that the PRIs, especially the ZPs, should strive to become financially self-reliant by raising their own resources by approaching financial institutions for investment in projects to ensure that the prime lands available to them are put to profitable use and may also try to explore the possibility of creating assets by adopting the Public Private Partnership mode.

[33] *Brick Soling and Drain, Drinking water, Library, Sanitation and Street lighting*

Profitable use of prime lands/creating assets

Audit Scrutiny revealed that the four test checked ZPs failed to approach the financial institutions or adopt Public Private Partnership mode for profitable use of their prime lands. ZP Rohtas and Nalanda planned for construction of shops but failed in its implementation.
It was further noticed that:

ZP Rohtas made provision of ₹ 6.27 crore in 2011-12 for construction of shops at 20 places in ZP budget which was raised to ₹ 7.10 crore in 2013-14 and construction of shops at first floor with estimated cost of ₹ 90 lakh in six places where shops had already been constructed (2011-12), but no expenditure was incurred.

The CEO, ZP Rohtas stated that due to shortage of staff and absence of regular District Engineer, the construction work could not be taken up. The reply regarding shortage of staff is not tenable as the construction could have been undertaken through tender.

ZP Rohtas advertised (October 2000) for construction of 99 shops under self-financing mode in eight blocks at an estimated cost of ₹ 48.75 lakh at *Chenari* Inspection Bungalow. ZP issued notice to lease the proposed shops for ten years in October 2000 and received ₹ 57.17 lakh (July 2006) including interest from 76 lesses for construction. A sum of ₹ 37.89 lakh had been spent on the construction of the shops out of the amount received but the shops remained incomplete (August 2016). As a result, the ZP was deprived of revenue in the form of rent amounting to ₹ 13 lakh[34] during the period 2011-16.

The CEO, ZP Rohtas replied that due to lack of monitoring on the part of the then CEO, ZP construction of the shops could not be completed. Audit observed that the present CEO, ZP also failed to take effective steps to complete the construction of the shops during his tenure since October 2014.

ZP Nalanda in its general meeting (23 July 2011) resolved to construct a market complex consisting of 122 shops in seven blocks in the premises of *Parwalpur* Inspection Bungalow. Advertisement for the allotment of the said shops was published (June 2012) and the ZP received 22 applications along with a security deposit of ₹ 5,000 each (July 2012) but, shops were not constructed. As construction of the shops were not initiated, there was an annual loss of revenue of ₹ 8.78 lakh[35] to the ZP.

The ACEO, ZP Nalanda replied that as the requisite number of application for allotment of shops were not received, construction work could not be undertaken. The reply was not tenable as no steps were taken by the ZP authorities to re-advertise for the construction of shops.

Enhancement of revenue

The PRD issued (July 2013) instructions to the District Magistrate, Deputy Development Commissioner in the State to initiate action for enhancing the revenue of the ZP by way of survey of assets, construction in vacant lands of the ZP for official and commercial purposes, renovation of the ZP buildings and

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[34] *62 shops @ ₹240, 36 shops @ ₹180 and 1 shop @ ₹432*

[35] *Annual loss of revenue= ₹600 x 122 x 12 months i.e., ₹ 8.78 lakh*

putting it on rent or utilising for its work, recovering of rents of Dak Bungalow/Inspection Bungalow at market rate.

In contravention to the above directives, the following deficiencies were noticed in the four test checked ZPs.

Occupation of ZP Inspection Bungalow/lands

In two ZPs, seven Inspection Bungalows/buildings ***(Appendix-2.8)*** were occupied by the officers of the State Government for running block offices/residence and by the private parties for running of *Sudha* Milk Parlour and operation of Bus Stand without paying any rent or nominal rent. Some cases are illustrated below:

The Inspection Bungalows Madhubani having an area of 1 acre 15 decimal was being used by District Magistrate, Madhubani as his official residence by paying a nominal rent of ₹ 250 per month.

The Dak Bunglow at Benipatti was occupied by the Deputy Superintendent of Police Benipatti as his residence but no rent was being paid by him.

Four rooms at Inspection Bungalows at Bikramganj were occupied by the Sub Divisional Officer @ ₹ 68 per day the rate of rent remained same since 2005-06 while IB Kochas was being used as Block and Circle office @ ₹ 64 per day and rent has not been revised for the last 24 years.

The CEO, ZP Madhubani and the CEO, Rohtas replied that necessary action for realisation of the rent at the prevailing market rate would be initiated with intimation to the PRD. The reply is not tenable as the ZPs not only failed to enhance the rate of rent despite the Government direction but also did not apprise the Government in this regard.

Realisation of rent

Vikas Bhawan, office of the District Rural Development Agencies (DRDA) Madhubani having an area of 14,765 sq. ft. constructed on the land of ZP Madhubani was not paying any rent to the ZP since construction. As a result, the ZP was deprived of rent of ₹ 55.37 lakh[36] at the prevailing market rate during 2011-16. The CEO, ZP Madhubani replied that rent would be demanded from the DRDA.

Outstanding rent

In three ZPs, rent of 1,325 shops amounting to ₹ 90 lakh was lying outstanding against the lessee for a period ranging from one to two hundred forty two months. The ZPs also failed to take effective steps to enhance the rent of the shops which were being realised at rates fixed between December 1987 and September 2011 due to the failure to revise/renew the agreement ***(Appendix-2.9)***.

The CEO, ZP Madhubani, and the ACEO, ZP Nalanda replied that notice was being served to the shopkeepers for realisation of the outstanding rent while the revision /renewal of the agreement was in process. The CEO, ZP Saran replied

[36] *₹ 90,805 per month @ ₹ 6.15 per sq. ft from April 2011 and ₹ 1,03,355 per month @ ₹ 7 per sq. ft from January 2015 to March 2016*

that agreement of shops was not done at the time of allotment of shops however, ZP later executed agreements with some lessee but no revision/renewal of agreement was done.

Two ZPs let out their premises to the State Government offices but the rent was not being paid by the offices for the last one to 22 years approx. thereby depriving the ZPs of revenue to the tune of ₹ 24.86 lakh ***(Appendix- 2.10)***.

The CEO, ZP Rohtas replied that despite several reminders the rent was not paid by the concerning offices. The ACEO, ZP Nalanda replied that notice has been issued in the past for realisation of the rent and fresh notices is also being issued. The reply was not tenable as the ZPs failed to intimate the matter to the State Government.

Thus, the ZPs not only failed to realise rent in time but also failed to take steps for increasing rate of rent.

2.1.4.3 Imposition of Tax

As per Fourth SFC recommendation, the State Government had to notify the maximum rate of taxes to be levied by the PRIs to enable them to raise resources or amend the law so that there would be no need to have government approval.

The State Government failed to notify any rate of taxes as of May 2016, as a result, the PRIs were unable to generate revenue by way of taxation.
The Secretary, PRD informed (February 2017) that the process for notification of rate of taxes is in advance stage and would be notified soon.

2.1.5 Conclusion

The recommendation of the Fourth SFC to notify the maximum rates of taxes to be levied by the PRIs to enable them to raise resources was not implemented by the Government. As a result, the PRIs were still dependent on the Government grants to execute various schemes.

The recommendation to strive for financial self- sufficiency through profitable use of prime land and creation of assets by adopting PPP mode was not yet implemented by the PRIs.

State Government did not devolve grants to PRIs as per accepted recommendations of Fourth SFC. There was a short release of grant of ₹ 2,446.06 crore during 2010-15. The grants for the year 2010-11 was not released whereas, against entitled grant of ₹ 1,055.33 crore for the year 2014-15, only ₹ 50.68 crore was released.

Funds under High Priority Sectors meant for exclusive use of GPs and PSs were allocated to the ZPs also.

Though the State Government accepted the recommendation of Fourth SFC to release grants to PRIs for salary and retirement benefit for the period 2010-15 only 39 to 70 *per cent* of grant was made available to ZPs for the purpose.

2.1.6 Recommendations

Based on above audit findings, we recommend that:-

The State Government should notify the maximum rate of taxes to be levied by PRIs.

The PRIs should strive for financial self-reliance through profitable use of their prime land and should create new assets through PPP mode.

The State Government should devolve adequate funds and functionaries to PRIs to enable them to carry out the mandated functions.

In order to increase its share of revenue, the ZPs should take appropriate steps for timely enhancement of rents of their buildings/shops and its collection in time.

2.2 Loss of rental income

Inaction by the CEO, ZP Patna to follow the orders of the ZP Board to lease out an eight storied Annexe Building in existing condition resulted in loss of rental income of ₹ 3.78 crore during September 2011 to August 2016.

Rule 37 of Bihar Financial Rules (BFR) stipulates that the departmental controlling officer should ensure that all sums due to Government are regularly and promptly assessed and realised. Rule 105 and 106 of the Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964 stipulate that separate register shall be maintained to show the details of each source from which periodical Zila Parishad (ZP) revenue is derived and the register should be checked annually by the Secretary of ZP and attested.

Scrutiny (February 2016) of records of ZP Patna revealed that a commercial building named *Loknayak Bhawan* and an Annexe building were constructed (March 2000) by the ZP by destroying the old and dilapidated building of Bankipur Dak Bunglow (1991). The commercial building was completed and let out (1993) but the Annexe building remained to be leased out as of January 2017.

A meeting was held (March 2000) under the Chairmanship of Commissioner-cum-Chairman of *Loknayak Bhawan* Construction Committee to fix the rates for lease[37] of the Annexe Building of *Loknayak Bhawan*. It was also decided to let out the building on a monthly rent of ₹ 25 per sq. ft. of super built-up area for first floor and at a rate reduced would be lesser by ₹ one for every two floors thereafter.

However, after a delay of nine years, a decision was taken in the meetings held in July 2009 and June 2010 presided by the Chairman and the Chief Executive Officer (CEO) of ZP respectively to let out the Annexe Building in existing

[37] *Settlement means Bandobast i.e., awarding of sairats (buildings, ponds, bus stand etc.) to a person or firm through advertisement for a fixed period at an agreed value.*

condition. The CEO, ZP stated that several government and other organisations[38] had expressed their interest in the building in existing condition along with four other organisations[39] (May 2011 to June 2015). Thus, there was opportunity for ZP to let out the building. However ZP failed to initiate any action till August 2016 despite decision of the ZP Board. This resulted in loss of expected rental income of ₹ 3.78 crore for the period September 2011 to August 2016 at the rate fixed during March 2000. The CEO, ZP neither checked the fixed demand register nor addressed the issue of leasing of the Annexe building.

Loknayak Annexe Bhawan located at Dak Bunglow Chauraha, Patna

On this being pointed out in audit, the CEO, ZP replied (May 2016) a Committee was set up to monitor the affairs of lease of Loknayak Annexe Bhawan and after the constitution of Three Tier Panchayati Raj Institutions in 2001, ZP office sought (September 2001) clear direction from Rural Development Department (RDD) regarding validity of the said Committee but no reply was received (May 2016). However, the Secretary Panchayati Raj Department replied (August 2016) that since entire work of the building was yet to be completed and the building was not yet handed over by the contractor, the building could not be let out. Reply of the Secretary was not acceptable as the ZP Board had taken decision to let out the building in its present condition and the government and other organizations were interested to take the building on lease.

Reply of the CEO, ZP was also not acceptable as no advertisement was published in daily newspapers for the lease. Direction regarding the validity of the Committee could have been taken from the department earlier also so that the delay could be avoided.

Thus, the lack of initiative by the ZP, Patna and the failure of the monitoring mechanism in the ZP the Annexe Building could not be let out and the ZP was deprived of revenue of ₹ 3.78 crore ***(Appendix-2.11)*** up to August 2016.

[38] *Income Tax Department; National Thermal Power Corporation Limited and others*

[39] *United India Insurance Company Ltd.; O/o the Joint Director General of Foreign Trade; Coir Board and Registrar, Debts Recovery Tribunal*

2.3 Avoidable payment of penal interest

Delay in release of Fourteenth Finance Commission grants to Gram Panchayats by Government of Bihar resulted in avoidable payment of penal interest of ₹ 8.12 crore.

As per recommendation of Fourteenth Finance Commission (Fourteenth FC) and conditions laid down by the Government of India (GoI), the State should release the grants to the Gram Panchayats (GPs) and Municipalities within 15 days of it being credited to their account by GoI and in case of delay, the State Government must release the instalment with interest as per Reserve Bank of India (RBI) rate from its own funds.

On scrutiny (February-July 2016) of records relating to Panchayati Raj Department (PRD), it was observed that as per recommendation of Fourteenth FC, GoI released (30 June 2015) first instalment of ₹ 1,134.59 crore for the year 2015-16 and the same was received by the State Government (2 July 2015).

However, the State Government had no system for direct transfer of grants to GPs. As a result, the grant was sanctioned and allotted by GoB to the districts (17 July 2015) to make available to GPs to spent on identified basic services[40] and Deputy Development Commissioner (DDC)-cum-Chief Executive Officer, Zila Parishad concerned was assigned the work of Drawing and Disbursing Officer (DDO) for the grant. However, the grant was not made available to 8398 GPs within prescribed 15 days but with delays ranged from 11 days to over six months.

The PRD, Government of Bihar (GoB) submitted (14 December 2015) Utilisation Certificates (UCs) of ₹ 1,134.59 crore to the Ministry of Finance, GoI.

However, the Ministry directed (22 December 2015) the State Government to pay interest to GPs concerned for the delays in release of grant. Ministry of Finance further directed the State Government to submit revised UCs after payment of penal interest to GPs as a prior condition for release of second instalment of grant for the year 2015-16.

On the issue, the Chief Minister of Bihar remarked (March 2016) that the amount of grant should have been released to the GPs in time as delayed release caused extra financial burden on State exchequer and sanctioned (10 March 2016) the amount of ₹ 8.12 crore (GP wise) to be paid to GPs, as penal interest.

The PRD replied (July 2016) that the amount of grant was released within prescribed 15 days by the department but interest was paid due to delay in release of amount by the DDO at district level due to procedural delay at ZP level.

The reply was not acceptable as the amount of grant was to be credited directly into the account of GPs concerned and State Government had to ensure release of grants to GPs within 15 days of receipt of grant. The State Government failed in establishing a mechanism to transfer amount of grant directly to the accounts of GPs resulted in delayed release of grants to GPs. Resultantly, GoB had to make an extra avoidable payment of interest of ₹ 8.12 crore to GPs. It also caused

[40] *Parks, roads, street lighting, sanitation, solid waste management and water supply etc.*

delayed release of second instalment of grant for 2015-16 in March 2016 whereas it was due in October 2015.

Further, though Chief Minister, Bihar remarked that delayed release of grant caused extra financial burden on State exchequer, no action has been taken against the erring DDOs.