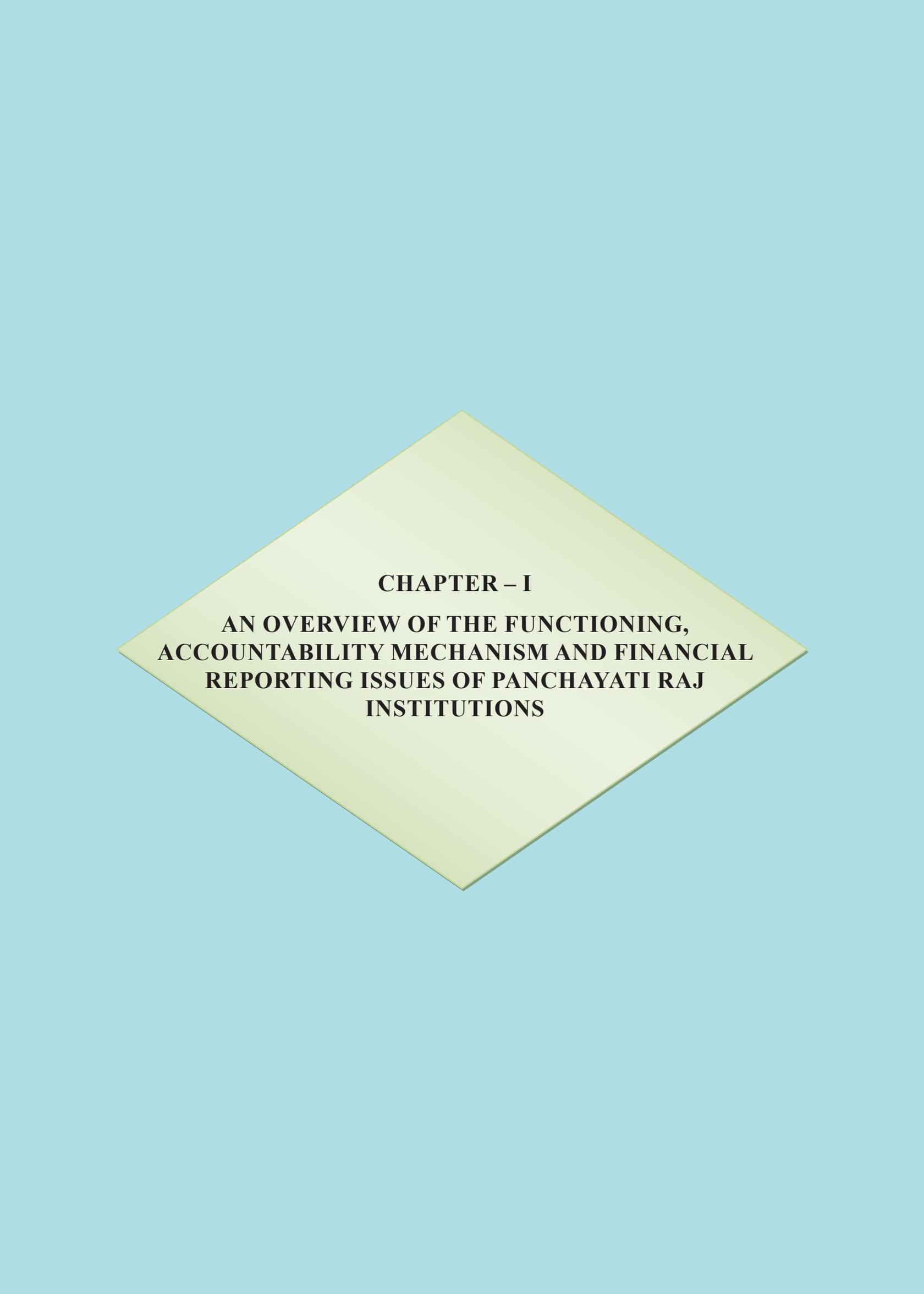




PART – A
PANCHAYATI RAJ INSTITUTIONS



CHAPTER – I

**AN OVERVIEW OF THE FUNCTIONING,
ACCOUNTABILITY MECHANISM AND FINANCIAL
REPORTING ISSUES OF PANCHAYATI RAJ
INSTITUTIONS**

Chapter – I
**An Overview of the Functioning, Accountability Mechanism and
 Financial Reporting issues of Panchayati Raj Institutions**

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 (three tiers of PRIs), elections, reservation of seats for Scheduled Caste, Scheduled Tribes and women and devolution of fund, functions and functionaries to PRIs. The PRIs aim to promote the participation of people and effective implementation of rural development schemes for economic development and social justice in various areas including those in relation to the functions (29 subjects) referred to 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 system of three-tiers of PRIs viz., Gram Panchayat (GP) at the village level, Panchayat Samiti (PS) at the Block level and Zila Parishad (ZP) at the District level to enable them to function as institutions of self-government. For decentralization at the grassroots level, GPs were divided into Wards and provisions of Gram Sabha¹ at the GP level and Ward Sabha² at the Ward level had been made.

As of January 2020, there were 8,958 PRIs³ having 1,35,783 elected representatives (declared as public servant by the GoB) in the State. Fifty *per cent* horizontal reservation was provided to women. The last general election to the elected bodies of PRIs was held in the State during the year 2021.

1.1.1 State Profile

Bihar is one of the largest States in the country with an area of 94,163 sq. km. and constitutes 2.86 *per cent* of the total geographical area of the Country. The population growth in Bihar in the last decade was 25.4 *per cent*. The rural population was 9.23 crore (89 *per cent*) out of a total population of 10.41 crore in the State. The 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
Population	Crore	10.41
Population Density	<i>Per sq. km.</i>	1,106
Rural Population	Crore	9.23
Gender Ratio	Females per thousand males	918

¹ *Gram Sabha means a body consisting of persons registered in the electoral rolls relating to a village comprised within the area of the Panchayat at the village level.*

² *All persons registered under the electoral roll of the Ward shall be members of the concerned Ward Sabha.*

³ *38 ZPs, 534 PSs and 8,386 GPs*

Indicators	Unit	State Value
Literacy	Per cent	61.80
Number of districts	Number	38
Number of PRIs	Number	8958
Decadal growth rate	Per cent	25.42
Rural Sex Ratio	Females per thousand males	921

(Source: Census 2011)

1.2 Organisational set-up

At the State level, the Panchayati Raj Department (PRD) coordinates 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. *Mukhiya* is responsible for financial and executive administration of GP.

The Chief Executive Officer (at the rank of District Magistrate or Additional District Magistrate) and the Block Development Officer-cum-Executive Officers are the executive heads of the ZP and the PS respectively. The Panchayat Secretary is in charge of the office of the GP and is also responsible for the maintenance of books of account and records at the GP level. The organizational structure of PRIs is depicted in **Chart - 1.1 & 1.2** below:

Chart-1.1: Elected Bodies

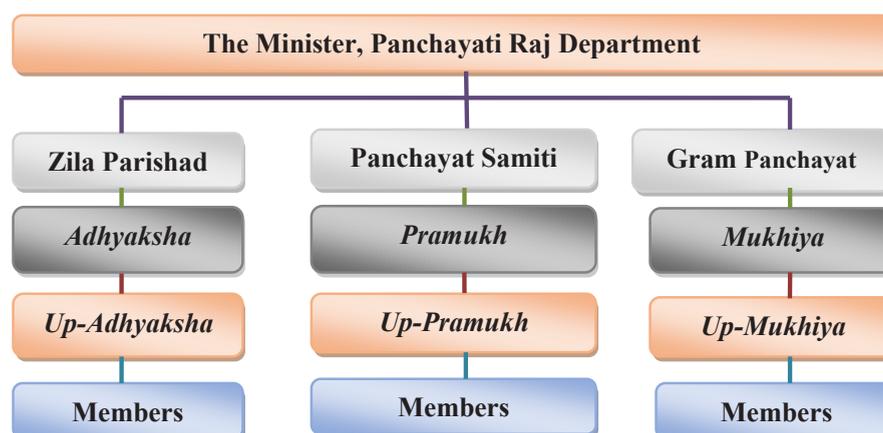
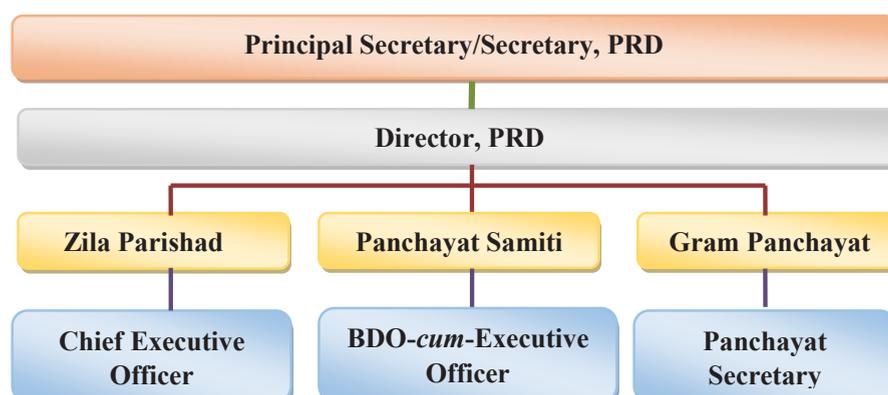


Chart-1.2: Administrative set-up



(Source: BPRA, 2006 and information provided by PRD, GoB)

1.3 Functioning of PRIs

1.3.1 Powers and Functions of PRIs

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

- preparation of plans and implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters referred to in the Eleventh Schedule of the Constitution; 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 the following powers to enable it to monitor the proper functioning of the PRIs. A 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	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	Power to make model Regulations, Inquiry and Inspection: The State 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	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	Finance Commission for Panchayats: The State Government shall constitute in every five years, 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	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.

Authority	Powers of the State Government
Section 172	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.
Section 18(5), 44(4) and 70 (5)	Removal from the post: The State Government may remove <i>Mukhiya/Up-Mukhiya, Pramukh/Up-Pramukh and Adhyaksha / Upadhayksha</i> from their post on the ground of absence from the meeting, lack in performing duties as per BPR, 2006, misusing their powers and convicted and absconded for more than six months after allowing them to represent themselves.

(Source: BPR, 2006)

1.3.3 Devolution of Functions, Funds and Functionaries to PRIs

The Seventy-third Constitutional Amendment Act (CAA) envisages that all 29 subjects as listed in Eleventh Schedule of the Constitution along with funds and functionaries would be eventually transferred to the PRIs through suitable legislation of the State Government.

Devolution of Functions

Twenty Departments of the GoB transferred their respective functions to the PRIs in September 2001 and prepared tier-wise activity mapping of functions/sub-functions. However, the Chief Secretary, GoB observed (July 2014 and April 2019) that provisions regarding devolution of functions and responsibilities to be performed by the three tiers of Panchayats were not made clear and practical and directed to review the previous resolutions issued by the Departments regarding devolution of functions and instructed to frame clear Operational guidelines within one month for effective devolution of powers to PRIs. In first phase 12 Departments were identified for framing the Operational guidelines, but only two Departments framed the guidelines till January 2017. The Fifth State Finance Commission (5th SFC) had also observed that the progress so far on Department wise and subject wise activity mapping was unsatisfactory. It was also observed that functions⁴ already devolved to PRIs were also carried out by the functional Departments of the GoB.

On this being pointed out by Audit, the Joint Secretary of PRD replied (January 2020) that all 29 subjects mentioned in the Eleventh Schedule of the Constitution were devolved to all three tiers of PRIs by the respective Departments but due to lack of interest of the Departments, devolution of functions could not be implemented effectively.

Thus, the actual devolution of functions to PRIs could not be done even after a lapse of more than 28 years of the 73rd CAA and proper Operational guidelines to carry out the devolved functions were not framed by 18 out of 20 Departments of the GoB.

Devolution of Funds

As per Sections 27, 55 and 82 of BPR, 2006, the PRIs were authorised to impose taxes on holdings, professions and levy tolls, fees and rates subject

⁴ Supply of drinking water, irrigation, social forestry etc.

to maximum rates notified by the State Government. Further, 4th and 5th State Finance Commission recommended that the State Government was to notify maximum limits of taxes to enable the PRIs to raise resources.

The PRIs were not able to realize tax due to the absence of relevant rules for collection of taxes. However, framing of Bihar Panchayat (Gram Panchayats, Audit, Budget and Taxation) Rules was under process for the last five years. As a result, PRIs were not able to levy and collect taxes till January 2021 despite recommendation of the SFCs and relevant provisions in the BPRA, 2006.

Thus, due to the non-framing of Bihar Panchayat Rules, PRIs failed to raise their revenue through taxation *etc.* and remained primarily dependent upon Government Grants received through Central Finance Commissions, State Finance Commissions and State Plan for the execution of the schemes.

Devolution of Functionaries

The manpower position in ZPs of the State was not available with the PRD. At GP level, Panchayat Secretary was the only government employee to facilitate GP in performing its mandated function but 4,751 posts (57 *per cent* of the sanctioned strength) of the Panchayat Secretary were vacant as of December 2020. Block Panchayati Raj Officer (BPRO) at Block level was responsible for monitoring and supervision of GPs. At the Block level, 455 posts of BPRO (64 *per cent* of the total sanctioned strength of 716) were vacant as of November 2019. The fifth SFC while observing the acute shortage of staff at all levels of PRIs, recommended model panchayat cadre for PRIs consisting of seven posts for each GP⁵ and PS and 20 to 29 posts for ZPs.

The PRD replied (January 2020) that Technical Assistant (2,096 posts) and Accountant-cum-IT Assistant (2,096 posts) were being recruited in GPs (one post for four GPs) on a contractual basis and the recruitment process of 4,751 vacant posts of Panchayat Secretaries through Bihar Staff Selection Commission was under process. The PRD further added that action was being taken for contractual appointment of Executive Assistant in each GPs, BPRO Office and District Panchayati Raj Officer (DPRO) office. However, audit observed that appointment of Panchayat Secretaries was under process for the last seven years.

1.4 Formation of various Committees

The BPRA, 2006 provides that PRIs shall constitute the various committees by election from among its members for effective discharge of its function.

1.4.1 Standing Committees

As per Sections 25, 50 and 77 of BPRA, 2006, the PRIs shall constitute various Standing Committees for the performance of the assigned functions. Standing Committees to be constituted at three-tier PRIs are given in **Table 1.3** below:

⁵ Six regular posts (One Panchayat Development Officer, one JE for five GPs, one GP Sachiv, one LDC-cum-Tax Collector, one Accountant, one IT Assistant-cum-DEO) and one MTS on contractual/outsourced.

Table-1.3: Standing Committees in PRIs

Committees	GP	PS	ZP
General Standing Committee	No	Yes	Yes
Planning, Co-ordination & Finance Committee/ Finance, Audit & Planning Committee	Yes	Yes	Yes
Production Committee	Yes	Yes	Yes
Social Justice Committee	Yes	Yes	Yes
Education Committee	Yes	Yes	Yes
Committee on Public Health, Family Welfare & Rural Sanitation	Yes	Yes	Yes
Public Works Committee	Yes	Yes	Yes

(Source: Section 25, 50 and 77 of BPR 2006)

The Department had no information regarding status of functioning of Standing Committees in PRIs. However, the Chief Secretary, GoB and also the PRD issued (May 2019 to December 2019) letters to all District Magistrates to ensure the effective functioning of Standing Committees as per the provisions of BPR 2006 in all the three tiers of PRIs.

1.4.2 District Planning Committee

Article 243ZD of the Constitution of India and Section 167 of the BPR, 2006, envisage the formation of a District Planning Committee (DPC) for consolidation of the plans prepared by the PRIs and ULBs of the district and to finalize a draft development plan for the whole District. The Department also prepared and notified (August 2008) 'The Constitution of Bihar District Planning Committee and Conduct of Business Rules, 2006' for the effective functioning of DPC. Further, the Chairperson of every DPC should forward the development plan as recommended by such Committee to the State Government.

The Department intimated (December 2019) that DPC had been constituted (February 2018) in all districts of Bihar. Therefore, the plans for execution of development works approved by the GPs and Municipalities could not be consolidated at the district level by the DPC for the period 2016 to 2018 and Article of the Constitution and provisions of the BPR was violated.

1.5 Audit Arrangements

1.5.1 Primary Auditor

Sections 31, 59 and 86 of BPR, 2006 (amended in May 2011) provide for an audit of GP, PS and ZP respectively by the Comptroller and Auditor General (CAG) of India or its authorised authority and a copy of the Report will be forwarded to respective PRIs within a month from the date of completion of the audit.

The GoB declared (2006) the Examiner of Local Accounts (ELA), Bihar as the prescribed authority for the audit of PRIs. Accordingly, the audit of the accounts of PRIs in Bihar was conducted by the ELA as a primary auditor under the supervision of the Accountant General (Audit), Bihar, as per provisions contained in the Bihar and Orissa Local Fund Audit (LFA) Act, 1925.

The Eleventh Finance Commission had recommended that the CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit for all tiers/levels of Panchayats. The Thirteenth Finance Commission (13th FC) and Fourteenth Finance Commission (14th FC) had also recommended that the CAG must be entrusted with the Technical Guidance and Support (TGS) over the audit of all the Local Bodies (LBs) at every tier/category and his Annual Technical Inspection Report (ATIR) as well as Annual Report of Director of Local Fund Audit (DLFA) must be placed before the State Legislature.

Accordingly, the terms and conditions for the audit of the accounts of LBs under TGS arrangement as laid in the Regulations on Audit and Accounts, 2007 were accepted by the GoB in December 2015 and subsequently audit of the accounts of LBs under TGS was commenced by the CAG from January 2017 and post of the ELA, Bihar was re-designated as the Deputy Accountant General (Social Sector-1/Local Bodies).

Consequently, the Directorate of Local Fund Audit started audit of the LBs performing the role of primary external auditor for audit of the LBs from January 2017. Issues related to the functioning of DLFA as the primary auditor for Local Bodies have been highlighted in the following paragraphs:

(i) Preparation of Annual Audit Plan /Perspective Plan

As per clause 2 (i) of the Standard Terms & Conditions of TGS as accepted (December 2015) by the State Government, the DLFA was to prepare by the end of September every year, an Annual Audit Plan (AAP) for the audit of local bodies for the next financial year and forward it to the Accountant General (Audit), Bihar, Patna. Audit observation regarding the Preparation of AAP and their submission to the Accountant General (Audit) has been shown in **Table 1.4** below:

Table-1.4: Delays in preparation of AAP

Sl. No.	AAP- Year	The due date for Preparation of AAP	Preparation of AAP by DLFA on (Date)	Delay (in Months)	Submission to the office of AG (Audit) (Date)
1.	2017-18	30 September 2016	20 March 2017	6 Months	20 March 2017
2.	2018-19	30 September 2017	27 November 2017	2 Months	27 November 2017
3.	2019-20	30 September 2018	12 July 2019	9 Months	12 July 2019

(Source: Information received from DLFA)

It is evident from the table above that delays in the preparation of AAP ranged from two to nine months during the period 2017-2020. The Chief Controller of Accounts-cum-Director (DLFA) replied (February 2020) that the delay in AAP was due to shortage of manpower.

Thus, due to the delay in the preparation of AAP, the DLFA could not identify/prioritize its key focus areas of the audit in time.

(ii) Low coverage of Audit and less issuance of Inspection Reports (IRs)

Audit observed that DLFA had conducted audit of the accounts of only 1,255 PRIs during 2014-19 which ranged from 1.42 *per cent* to 6.71 *per cent* only. Further, out of the aforesaid 1,255 audited PRIs, IRs of only 289 units (23 *per cent*) were issued. Details of units audited by the DLFA and status of IRs issued during 2014-19 have been given in **Table 1.5** below:

Table-1.5: Details of year-wise units audited

Units	Total no. of units	Unit Audited by the DLFA						Total IRs issued
		2014-15	2015-16	2016-17	2017-18	2018-19	Total	
Zila Parishad	38	11	11	-	10	15	47	289
Panchayat Samiti	534	20	19	12	46	31	128	
Gram Panchayat	8386	114	97	148	545	176	1080	
Total	8958	145	127	160	601	222	1255	289

(Source: Information furnished by DLFA)

On being asked about the reason for the non-issuance of IRs, the DLFA furnished category-wise status of non-issued IRs and stated that reports were in vetting, comparison, examination and typing stage and adequate infrastructural facilities (including accommodation) were not available.

(iii) Audit of Local Bodies under TGS arrangement

As per clause 2 (iii) of the accepted Standard terms and conditions of TGS, copies of IRs in respect of selected LBs were to be forwarded by the local fund auditor to the Accountant General (AG) to obtain necessary advice for system improvements. The AG was to review the same to make necessary suggestions for the improvement of existing systems of the Directorate of Local Fund Audit and also to monitor the quality of the IRs issued by the DLFA.

Accordingly, 26 IRs were provided (September 2015 and May 2017) to the office of AG (Audit) and necessary advice for system improvement was rendered (January 2016 and August 2017). Further, IRs of 25 Units of LBs which were audited from April 2017 to December 2017 had been sought⁶ by the office of AG (Audit), Bihar, however, the same was not provided by the DLFA till July 2020. Further, it was also requested to provide IRs of 10 *per cent* of the number of units audited in respect of Zila Parishad and Municipal Corporations and 5 *per cent* of the total number of units audited in respect of other LBs which were audited by DLFA during January 2018 to December 2018 but the same was also not received till January 2020 from the DLFA.

Thus, due to non-submission of required IRs by the DLFA to AG (Audit), the quality of IRs issued by the DLFA could not be monitored by the AG (Audit) and DLFA was deprived of TGS despite provisions made under Standards term & Conditions for entrustment of TGS.

⁶ January 2018, July 2018, October 2018 and January 2020

(iv) Poor response to IRs issued by DLFA

Status of compliance of audit paragraphs contained in the IRs was not satisfactory as evident from huge number (almost 100 *per cent*) of audit paragraphs remained outstanding for settlement as of 31 March 2019 as detailed in **Table-1.6** below:

Table-1.6: Outstanding paragraphs in PRIs for the period 2014-19

Year	No of IRs issued	No. of paras in IRs	Amount involved (₹ in lakh)	No of paras settled	Amount of settlement (₹ in lakh)	No of Paras outstanding	The money value of paras outstanding (₹ in lakh)
2014-15 to 2018-19	289	1677	8027.43	2	0.13	1675	8027.30

(Source: Information furnished by DLFA)

It is evident from the table above that out of a total of 1677 paragraphs contained in 289 IRs, only two paragraphs (0.11 *per cent*) valued ₹ 0.13 lakh were settled and 1675 paragraphs involving ₹ 80.27 crore were pending for settlement as of 31 March 2019. Thus, huge outstanding audit paragraphs indicated weak internal control in PRIs and inaction at the part of the authorities concerned to ensure compliance of outstanding audit paragraph.

(v) Submission of Returns

As per clause 2 (iv) of the accepted Standard terms and conditions of TGS, the DLFA is to furnish returns in such format as may be prescribed by the CAG for obtaining advice and monitoring purpose. Accordingly, the office of the AG (Audit) prescribed three returns⁷ and four registers⁸. But, required returns and registers were not furnished by the DLFA. Later on, the AG (Audit) proposed (February 2018) to submit the Annual Return (Implementation of Annual Audit Plan due on 15 April of each year for the preceding year), Quarterly Return (Serious irregularities due on 15th of the month following each quarter), Annual Progress report of IRs/Paras (due on 15th April for the preceding year), Half-yearly return (Consolidated Performance Report due on 15th of the month following each half-year). But, no returns as prescribed were furnished by DLFA.

The DLFA replied (February 2020) that the returns were not submitted as a very few audit reports could be issued. He further stated that unless the pending reports were issued and provisions were made for timely issue of current reports, most of the columns in the return would be blank.

(vi) Reporting of Audit findings of serious irregularities to AG (Audit)

As per clause 2 (vi) of the accepted Standard terms and conditions of TGS, irrespective of the money value of the objections, any serious irregularities such

⁷ (i) Quarterly assessment report, (ii) Consolidated performance report (A) (iii) Consolidated performance report (B).

⁸ (i) Scheme register (ii) Department wise Budget allocation and Expenditure register (iii) Outstanding IR/Para register and (iv) Annual Programme register

as system deficiencies, a serious violation of rules and fraud noticed by local fund auditor was to be intimated to the AG (Audit).

On this being pointed out, DLFA replied (February 2020) that a sizeable number of serious irregularities (fraud, defalcation and misappropriation) were noticed but the reports were not finally issued therefore, it could not be reported to the AG (Audit).

(vii) Internal Control

As per clause 2 (vii) of the accepted Standard terms and conditions of TGS, the local fund auditor was to develop in consultation with the AG (Audit), a system of internal control in his organization.

On this issue, DLFA replied (February 2020) that due to a lack of infrastructural facilities and technical know-how, the system of internal control could not be initiated.

(viii) Training and Capacity building

As per clause 2 (viii) of the accepted Standard Term & Conditions of TGS, the AG (Audit) shall undertake training and capacity building of the local fund audit staffs.

In this regard, the DLFA replied (February 2020) that training of auditors of the Directorate of Local Fund Audit was conducted once in 2015 only since its inception. In 2017 ten more auditors joined DLFA and practical training was imparted to them by attaching them in Audit teams. The DLFA replied (February 2020) that no written request was made to the AG (Audit) to impart training to the auditors of the Directorate of Local Fund Audit.

(ix) Status of provision of TGS in BPR, 2006

As per the recommendation of the Central Finance Commissions, the GoB had entrusted (December 2015) TGS to the audit of the accounts of LBs to the CAG and that was accepted by the CAG in November 2016 and consequently the role of the primary auditor was assigned to the DLFA established under Finance Department, GoB.

However, provision regarding entrustment of TGS to CAG for the audit of PRIs had still not been made in the Bihar Panchayati Raj Act (BPR) 2006 by the GoB. The DLFA replied (February 2020) that revision in the BPR 2006 in this regard is under process.

(x) Inadequate manpower with DLFA

To ensure the functioning of DLFA efficiently and effectively, sufficient Manpower of DLFA was required to be put in place. Sanctioned strength and men in position under different cadres of DLFA as of February 2020 is shown in **Table-1.7** below;

Table-1.7: Sanctioned strength and Men-in-position of DLFA

Sl. No.	Name of post	Sanctioned strength	MIP	Vacancy
1	Joint Director	1	0	1
2	Deputy Director	3	0	3
3	Sr. A.O/ Asst. Director	34	6	28
4	Audit Officer	45	25*	20
5	Assistant Audit Officer	50	1	49
6	Senior Auditor	56	-	56
7	Auditor	125	13	112
Total		314	45	269

(Source: Information received from DLFA)

* Indicated persons were Senior Auditor-2. Since the post of Senior Auditor-2 was surrendered and the Promotion Committee had approved their promotion to the post of Audit Officer as per the new cadre rule, their number was mentioned against the post of Audit Officers.

It is evident from table above that DLFA had serious manpower constraint and only 45 audit personnel were working against the sanctioned strength of 314 as of October 2019. Due to shortage of manpower audit coverage was very poor as discussed in preceding paragraphs.

The DLFA replied (February 2020) that requisition for recruitment of 465 Auditors and 137 Assistant Audit Officers was being made to the Commission and other remaining posts would be filled in due course through promotion from lower posts as per cadre rules.

1.6 Response to Audit Observations

1.6.1 Poor response to AG's Inspection Reports

After completion of the audit, IRs containing audit findings were to be issued to the PRIs concerned with a copy to the State Government. The CEOs of the ZPs, the EOs of PSs and the *Mukhiyas* of GPs were required to respond to audit observations contained in the IRs and send compliance report within three months. But, the status of compliance of audit paragraphs was not satisfactory as evident from the increasing number of paragraphs outstanding as of 31 March 2019. Details of paragraphs outstanding for compliance for the last five years (2014-19) are given in **Table-1.8** below;

Table-1.8: Outstanding audit paragraphs for the last five years (2014-19)

Year	No. of IRs	No. of paragraphs in IRs	Amount involved (₹ in crore)	No. of paragraphs settled	Amount of settlement (₹ in crore)	No. of paragraphs outstanding	The money value of paragraphs outstanding (₹ in crore)
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2014-15	253	2813	54.59	188	0.30	2625	54.29
2015-16	421	2024	164.10	30	7.46	1994	156.64
2016-17	317	1339	253.37	6	1.23	1333	252.14
2017-18	381	1992	889.04	4	0.45	1988	888.59
2018-19	24	149	20.46	0	0	149	20.46
Total	1396	8317	1381.56	228	9.44	8089	1372.12

(Source: Inspection Reports)

It is evident from the Table that out of the total 8,317 paragraphs contained in 1,396 IRs, only 228 paragraphs (2.74 per cent) were settled and 8089 paragraphs involving ₹ 1,372.12 crore remained outstanding as of March 2019.

A large number of outstanding paragraphs indicated a lack of internal control and lukewarm attitude of PRIs authorities in furnishing compliance to audit observations.

1.6.2 Compliance/status of Annual Audit Reports

In the State, reports of the ELA was prepared for the period 2005-06 to 2013-14 and after that CAG's Audit Reports on LBs for the period 2014-15 and 2015-16 were prepared.

(i) ELA's Annual Report

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 Committee⁹ had the responsibility to ensure compliance of audit paragraphs/ reports received from PRIs and ULBs of that district. The Department Level Committee¹⁰ was to review the compliance of audit paragraphs/ reports made by the District Level Committees. The High-Level Committee¹¹ was to meet once in six months to review the functioning of District and Department Level Committees.

Audit observed that 17 District Level Committee meetings were held for PRIs during 2018-2019, but matters relating to ELA's Annual Reports were not discussed. Further, the Departmental Level Committee meeting was not held since July 2015 and the High-Level Committee meeting was not held since August 2013.

The Department accepted (January 2020) that there was laxity in the convening meeting by the District Level Committee. PRD further added that due to the non-receipt of minutes of the meeting held at District level committees, meetings could not be convened at the Departmental level.

Further, the ELA's Annual Audit Reports on LBs for the year ended March 2013 and March 2014 were placed before State Legislature in March 2016, but, no arrangement for discussion of the ELA's report in Public Accounts Committee (PAC) or in PAC like Committee had been made.

Thus, the purpose of constituting three-tier Committees was not fulfilled and the audit observations contained in the Annual Audit reports of ELA were not discussed.

(ii) CAG's Audit Report on LBs

Sections 31(4), 59(4) and 86(4) of the BPR (Amendment) Act, 2011 stipulate that the Annual Report of the CAG of India or an authority authorized by him shall be laid before both the houses of the State Legislature.

⁹ Headed by the District Magistrate/Deputy Development Commissioner

¹⁰ Headed by the Principal Secretary/Secretary of the Panchayati Raj Department, GoB

¹¹ Headed by the Principal Secretary to the Finance Department, GoB and the Pr. A.G. (Audit), Bihar as a member

The first CAG report on LBs, GoB for the period 2014-15 was laid before the State Legislature on 4 April 2016. Three paragraphs of the report related to PRD were discussed in the PAC but audit observations were not settled till June 2020.

Further, the CAG report on LBs, GoB for the period 2015-16 was laid before the State Legislature on 23 August 2017, however, the same was not discussed in the PAC till December 2020.

1.7 Accountability Mechanism

1.7.1 Lok Prahari (Ombudsman)

As per Section 152(5) of BPR 2006, *Lok Prahari* (Ombudsman) is to be appointed by the State Government for Panchayats and *Gram Kutchahary* and State Government was to frame service conditions, duties and powers *etc.* of *Lok Prahari*. As per the recommendation of the 2nd Administrative Reform Commission, the Ombudsman should have the authority to investigate cases and submit reports to the competent authority for taking actions.

However, Draft Bihar Local Government Ombudsman Rules 2011 for the appointment of *Lok Prahari* (Ombudsman) for Panchayats and *Gram Kutchahary* was not finalized. Therefore, *Lok Prahari* (Ombudsman) for PRIs could not be appointed by PRD till January 2021.

Thus, the complaints regarding issues of Panchayats and *Gram Kutchahary* could not be addressed by *Lok Prahari* (Ombudsman) as envisaged in the BPR, 2006.

1.7.2 Social Audit

Rule 2 (A) of Bihar Gram Sabha (Co-ordination of meeting & Procedure for conduct) Rules, 2012 provides for Social Audit of all the development work executed in the village by the Gram Sabha. Further, Para 2.1.7 of 5th SFC prescribed that accountability through Social Audits should be pursued to make the PRIs institutions of 'Smart' self-governments. The basic objective of Social Audit was to ensure public accountability in the implementation of projects, laws and policies.

GoB had sanctioned the constitution of an independent Social Audit Society with 69 different posts (July 2015) to conduct Social Audit of works under Mahatma Gandhi National Rural Employment Guarantee Schemes (MGNREGS).

The Joint Secretary, PRD had stated that there was no separate mechanism for social audit in PRIs for schemes other than MGNREGS. So, the department had requested Rural Development Department to conduct the social audit with the help of the Social Audit Society.

Thus, Social Audit for the schemes other than MGNREGS was not carried out in absence of such a mechanism and public accountability in the implementation of projects, compliance of laws and policies could not be ensured.

1.7.3 Submission of Utilisation Certificates

As per the instruction of GoB read with provisions contained in Section 342 of Bihar Financial Rules (BFR), the time limit for submission of Utilisation Certificates (UCs) for the grants sanctioned for specific purposes was 18 months from the date of allotment of the grants. Audit observed that the PRD had released grants of ₹ 29319.83 crore to PRIs during 2007-08 to 2017-18 under Backward Region Grant Fund (BRGF), 13th FC, 14th FC, 3rd SFC, 4th SFC, 5th SFC, *Mukhya Mantri Gramodaya Karyakram (MMGK)*, *Pratinidhi Bhatta*, *Gram Kutchahary Nyaymitra/Sachiv ke Mandey & Kiraya*, *Upaskar*, *Mukhya Mantri Nischay Yojana (Payjal)*, *Mukhya Mantri Nischay Yojana (Gali-Nali)*. But, the UCs for only ₹ 13695.45 crore (46.71 per cent) were submitted by the PRIs as of November 2019 as detailed in **Table-1.9** below:

Table-1.9: Submission of Utilisation certificates by PRIs for funds allotted during 2007-18

(₹ in crore)

Head	Period	Total Allotment	UCs submitted	Percentage of UCs submitted
BRGF	2007-08 to 2014-15	3973.98	3776.08	95.02
13 th FC	2010-11 to 2015-16	4978.56	4697.20	94.35
14 th FC	2015-16 to 2017-18	9049.77	2218.62	24.52
3 rd SFC	2007-08 to 2012-13	85.52	60.02	70.18
4 th SFC	2011-12 to 2014-15	2118.61	1778.06	83.93
5 th SFC	2016-17 to 2017-18	4578.27	186.35	4.07
<i>MMGK</i>	2012-13 to 2014-15	267.70	220.43	82.35
<i>Pratinidhi Bhatta</i>	2008-09 to 2017-18	1491.08	482.07	32.33
<i>Gram Kachahari Nyaymitra/Sachiv ke Mandey & Kiraya, Upaskar</i>	2008-09 to 2017-18	584.34	250.37	42.85
<i>Mukhya Mantri Nischay Yojana (Payjal)</i>	2016-17 to 2017-18	1282	9.16	0.71
<i>Mukhya Mantri Nischay Yojana (Gali-Nali)</i>	2016-17 to 2017-18	910	17.08	1.88
Total		29319.83	13695.44	

(Source: Information provided by the PRD, GoB)

Department replied (March 2019) that amount allotted by PRD was utilized by altogether 1,31,382 units¹². These units were being audited scheme-wise/ year-wise; thereafter, UCs were received by the PRD. Department further added that the district wise roster was prepared every month for adjustment and progress of outstanding UCs.

Reply of the Department was not acceptable since pending of UCs for a longer period indicated weak internal control and poor monitoring mechanism.

1.7.4 Internal Audit and Internal Control System of PRIs

As per the recommendation of the 5th SFC for sustainable improvements, qualified Accountants were to be appointed regularly apart from contracting Chartered Accountants (CAs) as internal Auditor as an interim measure. Further,

¹² 38 ZPs, 38 District Panchayat Raj Office, 534 PSs, 8,386 GPs, 8,386 Gram Kachahari and 1,14,000 Wards

the Finance Department, GoB, in the light of 14th FC recommendations made it mandatory (February 2016) for LBs to submit the expenditure accounts and internal audit report along with UCs of previous year's grants for release of 2nd and subsequent instalment.

The PRD intimated (December 2019) that Panchayat wise and Scheme wise audit of the accounts of PRIs and *Gram Kachahari* for the year 2016-17 to 2018-19 was being conducted by CAs selected by the PRD. The status of the internal audit conducted by the CAs in PRIs and *Gram Kachahari* during 2016-19 has been given in **Table- 1.10** below:

Table-1.10: Status of Internal Audit by Chartered Accountants

Units	Year	Total internal audit to be conducted	Internal audit conducted	Total audit report submitted (District wise*)
PRIs	2016-17	8386+534+38	8231+507+38	35+1 (partial)
	2017-18	8386+534+38	7869+438+38	13+2 (partial)
	2018-19	8386+534+38	459+124+0	Nil
Gram Kachahari	2016-17	8386	8068	35+1 (partial)
	2017-18	8386	7795	13+2 (partial)
	2018-19	8386	823	Nil

(*District wise report had been submitted by CAs)

(Source: Progress report related to audit work maintained at Department level)

It was evident from the table above that audit reports were not submitted by the CA firms for the year 2018-19, whereas audit reports for only 15 districts (39 per cent) were submitted by the CA firms for the year 2017-18, out of which report in respect of two districts (Patna and Begusarai) were submitted partially. Further, audit reports of 36 districts were submitted by the CA firms for the year 2016-17, out of which audit report of Sheohar district was submitted partially.

1.8 Financial Reporting Issues

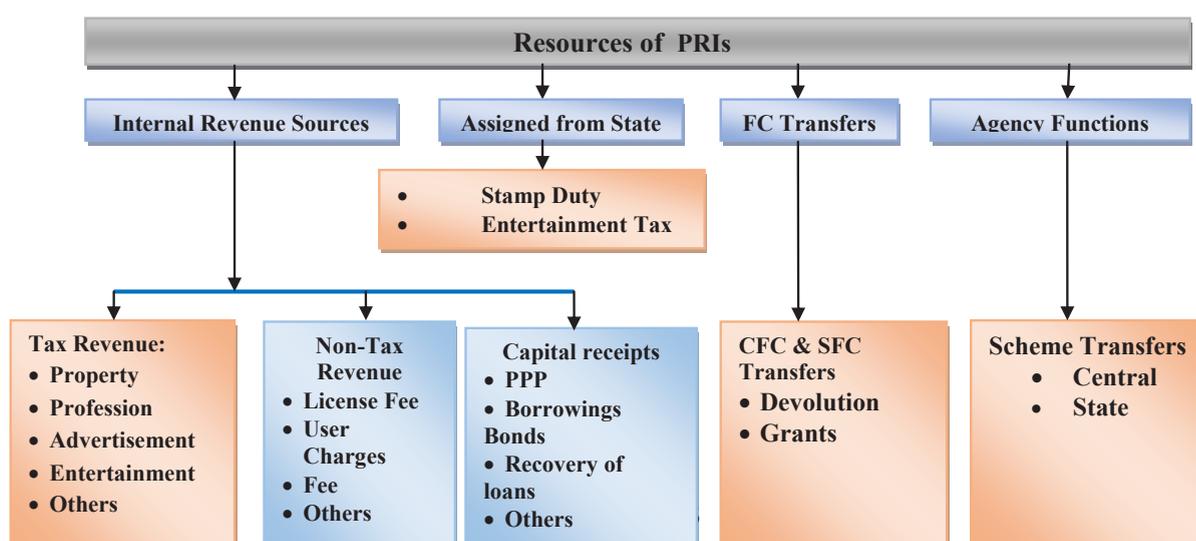
1.8.1 Sources of Funds

The resource base of PRIs consisted of its own revenue generated by the collection of tax and non-tax revenues, devolution of funds as per recommendations of 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 were authorised to impose taxes on holdings, professions and levy tolls, fees and rates subject to a maximum rate notified by the State Government. A flow chart of sources of finances of PRIs is depicted in **Chart- 1.3** below:

Out of the three-level of PRIs only the ZPs had some own source of revenue viz. rent of shops/Inspection Bungalow, leasing of ponds/bus-stand *etc.*, whereas PRIs did not levy taxes and fees as the State Government had not yet notified the maximum rates of taxes, tolls and fees *etc.*, as of January 2021. However, the framing of Bihar Panchayat (Gram Panchayat, Audit, Budget and Taxation) Regulation was under process at the State level.

Chart-1.3: Sources of Finances



(Source: 5th State Finance Commission)

1.8.1.1 Fund Flow arrangement of Centrally/State Sponsored Schemes

Fund Flow arrangement for major Centrally/State Sponsored Schemes is given in **Table 1.11** below:

Table-1.11: Fund Flow arrangement of Centrally/ State sponsored schemes

Sl. No.	Name of Scheme	Fund flow arrangement
1.	14 th FC	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 amount of grant was to be transferred directly into the account of GPs.
2.	5 th SFC	The 5 th SFC grants will be released directly into the bank account of PRIs concerned through electronic fund transfer and core banking system. For the year 2015-16, the grant is to be released in one instalment based on Revised/Actuals of 2014-15. In the subsequent years, the first allocation of 50 per cent of the devolved funds would be released in April and the second instalment by October of the year based upon RE/Actuals of the previous year subject to the submission of account of the previous year.

Sl. No.	Name of Scheme	Fund flow arrangement
3.	<i>Mukhya Mantri Gramin Peyjal Nishchay Yojna & Mukhya Mantri Gramin Gali-Nali Pakkikaran Nischay Yojna</i>	The GoB launched <i>Mukhya Mantri Gramin Peyjal Nishchay Yojna & Mukhya Mantri Gramin Gali-Nali Pakkikaran Nischay Yojna</i> in the State from the year 2016-17. The funding of the schemes was 40 per cent of 14 th FC grants and 45 per cent of devolution portion of 5 th SFC and remaining (if required) from State Plan for each scheme. The funds were credited directly into the bank accounts of GPs by the PRD through PFMS.
4.	<i>Rajiv Gandhi Panchayat Sasaktikaran Abhiyan</i>	This is a Centrally Sponsored Scheme and fund sharing between Central and State government was in the ratio of 75:25.

(Source: Scheme Guidelines and allotment letters of GoB)

1.8.1.2 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 2014-19 is given in **Table-1.12** below:

Table-1.12: Budget allocation vis-à-vis expenditure

(₹ in crore)

Particulars	Head	2014-15	2015-16	2016-17	2017-18	2018-19	Total
1	2	3	4	5	6	7	8 (3 to 7)
1. Budgetary Allocation	Revenue	4709.01	5465.11	7386.33	9148.71	10245.17	36954.33
	Capital	100.50	2.00	0.00	0.01	1.00	103.51
	Total	4809.51	5467.11	7386.33	9148.72	10246.17	37057.84
2. Expenditure	Revenue	2374.78	2893.01	6466.66	8540.95	8408.50	28683.90
	Capital	0.00	0.00	0.00	0.00	0.00	0.00
	Total	2374.78	2893.01	6466.66	8540.95	8408.50	28683.90
3. Savings (1-2)		2434.73	2574.10	919.67	607.77	1837.67	8373.94
4. Percentage of savings		51	47	12	7	18	23

(Source: Appropriation Accounts for the year 2014-15 to 2017-18 and draft Appropriation Accounts for 2018-19 GoB)

It is evident from **Table 1.12** above that the PRD could not fully utilise budgetary allocation and the percentage of savings ranged between seven per cent and 51 per cent during 2014-19. Further, total allocation under Capital head was less than one per cent of the total allocation during 2014-19 while capital expenditure during 2014-19 was nil.

1.8.2 Recommendations of the State Finance Commission

In terms of Article 243-I of the Constitution of India and as per provisions contained in Section 168 of the BPR, 2006, GoB had constituted State Finance Commissions¹³ to assess the financial status and to determine the principles based on which adequate financial resources would be ensured to the LBs.

The 5th SFC was constituted in December 2013 for the period 2015-20 and its report was due on 31 March 2015; however, it was submitted in February 2016 with a delay of 10 months.

As per recommendations of the 5th SFC, two types of amount (i) share of net tax revenue of the State (ii) amount in shape of grants is to be released to the PRIs. The amount was to be spent on water supply, sanitation, e-governance, *Panchayat Sarkar Bhawan etc.* The devolution amount was to be distributed among GPs, PSs and ZPs in the ratio of 70:10:20 respectively. GoB had made a provision of ₹ 2,335 crore to be released to PRIs during 2015-16 but grants were not released. The first instalment of 2016-17 was to be released in April but it was observed that the same was released on 23 December 2016. Grants were released to PRIs with delays ranging from 98-252 days during 2016-17 to 2019-20 as detailed in **Table-1.13** below:

Table-1.13: Delay in Release of Grants

Year	Particulars of 5 th SFC Grant	Grant to be released to PRIs	Date of release to PRIs (Sanction order with date)	Delay in release of grants (in days)	Amount released with delays
2016-17	1 st instalment	April 2016	13/23.12.16	236	1081.16
	2 nd instalment	October 2016	18/29.03.17	148	1081.14
2017-18	1 st instalment	April 2017	27/08.01.18	252	1215.65
	2 nd instalment	October 2017	34/26.03.18	145	1215.65
2018-19	1 st instalment	April 2018	17/05.09.18	127	1300.29
	2 nd instalment	October 2018	30/08.02.19	99	1300.30
2019-20	1 st instalment	April 2019	11/07.08.19	98	1491.87
	2 nd instalment	October 2019	Under Process		1485.25
Total					10171.31

(Source: Information furnished by the Department)

Important recommendations of the 5th SFC in respect of PRIs and the present status of its implementation has been detailed in **Appendix-1.1**

1.8.3 Recommendations of the Central Finance Commission

Article 280(3)(bb) and 280(3)(c) of the Constitution of India mandate the Finance Commission to recommend measures to augment the Consolidated Fund of a State to supplement the resource of Panchayats and Municipalities.

(i) Fourteenth Finance Commission

The Fourteenth Finance Commission (14th FC) was constituted in January 2013 to make recommendations on specified aspects of Centre-State fiscal relations

¹³ First SFC - April 1994, Second SFC - June 1999, Third SFC - July 2004, Fourth SFC - June 2007 and Fifth SFC - December 2013

for the award period 2015-20 and it submitted its report on 15 December 2014. The 14th FC had recommended the assured transfer of funds to LBs for delivery of basic services¹⁴ only. In the light of 14th FC recommendations, the grants were to be disbursed to Local Bodies using the formulae recommended by the respective SFCs for distribution of resources.

The 14th FC had recommended Grants-in-Aid to duly constituted GPs in two parts viz., (i) Basic Grant¹⁵ (BG) and (ii) Performance Grant¹⁶ (PG) and prescribed two eligibility conditions¹⁷ for GPs to become eligible for PG. Further, GoI had prescribed (September 2017) two additional eligibility criteria¹⁸ for receiving PG by the GPs. The ratio of BG to PG is 90:10 in respect of GPs

The details of grants recommended by 14th FC and received by GPs during 2015-20 are given in **Table- 1.14** below:

Table-1.14: Grants recommended and released

(₹ in crore)

Year	Basic Grant			Performance Grant		
	Recommended	Released by GoI to GoB	Released by GoB to GPs	Recommended	Released by GoI to GoB	Released by GoB to GPs
2015-16	2269.18	2269.18	2269.18	0	0	0
2016-17	3142.08	3142.08	3142.08	412.15	0	0
2017-18	3630.39	3630.39	3630.39	466.41	0	0
2018-19	4199.71	4199.71	4199.71	529.67	0	0
Total	13241.36	13241.36	13241.36	1408.23	0	0

(Source: 14th FC report, grant sanctioning and allotment letters and UCs of PRD and UD&HD, GoB)

Further, GoB could not receive PG of ₹ 1408.23 crore for the period 2016-19 as the GPs could not fulfil the mandatory conditions viz., availability of audited accounts and improvement in own sources of revenue.

The PRD stated (March 2019) that steps had been taken for compliance with the mandatory conditions for PG. The reply is not acceptable as the consolidated audited accounts could not be prepared and the regulation for taxation by the GPs has not yet been framed.

(ii) Delay in release of grants

As per 14th FC recommendations, the State should release the grants to LBs within 15 days of it being credited to their account by GoI failing which the

¹⁴ Water supply, sanitation including septic management, sewage, stormwater, drainage, street lighting, LB roads and footpaths, park etc.

¹⁵ Basic grants are provided to LBs for supporting and strengthening the delivery of basic services.

¹⁶ Performance grants are designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement of own revenue.

¹⁷ The LBs will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which the LBs seek to claim the PG, and they will have to show an increase in their revenues over the preceding year as reflected in the audited accounts. Further, the municipalities must measure and publish the Service Level Benchmarks (SLB) relating to basic urban services each year.

¹⁸ (i) Uploading of GPDP on Plan Plus portal of MoPR; and (ii) uploading of sector-wise expenditure on MoPR website.

State would be liable to pay penal interest to LBs at RBI bank rate from its funds.

Audit observed that the instalments for the year 2018-20 were released with a delay of 4 to 515 days. Due to delay in the release of the grants to GPs concerned, the GoB incurred a liability of ₹ 33.30 crore as detailed in **Table-1.15** below:

Table-1.15: Delay in the release of grants

(₹ in crore)

Year	Particulars of 14 th FC grants	Date of receipt by the Department	Date of release to LBs	Delay in release of grants (in days)	Amount released with delays	Penal interest at RBI rate (@ 6.75 per cent)
2018-19	1 st Instalment	6 September 2018	3 October 2018-18 February 2020	12-515	2099.79	13.58
	2 nd Instalment	9 January 2019	8 February 2019-18 February 2020	16-391	2099.63	16.18
2019-20	1 st Instalment	3 September 2019	13 September 2019 – 7 February 2020	34-142	54.01	1.05
	2 nd Instalment	25 October 2019	6 November 2019-7 February 2020	4-90	2291.08	2.49
Total						33.30

(Source: Sanctioning letter, Bank advice and cash book of PRD)

On this being pointed out by audit, the Joint Secretary of PRD replied (June 2020) that there was no delay in releasing grants to GPs as the entire amount was made available to the nodal bank at State level, but due to discrepancies in the bank accounts of GPs and technical faults in PFMS, amount of grants was released with delays.

Reply of the Department was not acceptable as the Department had to ensure release of grants directly into the accounts of the GPs within 15 days of receipt of a grant from the GoI.

Further, Audit observed that the 2nd instalment of 2018-19 and 1st and 2nd instalments of 2019-20 had not been transferred to a GP {Nari (PS Gourabouram under Darbhanga District)} till February 2020. However, the PRD had submitted the UCs for the period 2018-20 to MoPR, GoI certifying that the money had been electronically transferred to elected local bodies within 15 days of receipt of grants from the Central Government. On this being pointed out by audit, no specific reply was furnished by the Department.

1.8.4 Maintenance of records

Rule 40 of Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964 prescribes maintenance of basic records, registers and accounts for transparency and accountability.

Scrutiny of records of four test checked ZPs¹⁹ revealed that ZPs did not maintain key records viz., Asset Register, Grant Register, Stock Register, Advance Register, Investment Register, Register of Registers, Daily Collection Register etc. As pointed out during the audit, the ZPs replied that said registers would be maintained in future.

¹⁹ Arwal, Banka, Begusarai and West Champaran, Bettiah

Failure to maintain key records was indicative of a poor monitoring mechanism and the actual financial position of the entities was not ascertainable.

1.8.5 Reconciliation of Balances as per Cashbook with Bank Passbook

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.

However, test check of two GPs²⁰ disclosed that reconciliation statements were not prepared and there was a difference of ₹ 0.62 lakh (MGNREGA account) and ₹ 0.84 lakh (13th FC and 12th FC accounts) between Cash Book balance and Bank balance as on 31 March 2016 and 31 March 2017 respectively. Further, two ZPs (Aurangabad and Buxar) also did not prepare bank reconciliation statement for the year 2016-17 and there was a difference of ₹ 0.89 lakh and ₹ 0.09 lakh respectively. Non-reconciliation of difference was fraught with the risk of misuse of funds.

1.8.6 Maintenance of Accounts by PRIs

1.8.6.1 Maintenance of Accounts by PRIs

The Panchayats were required to maintain accounts as per Section 30, 58 and 85 of the BPRA, 2006. No separate rules were framed under the existing BPRA and at the best, the provisions of the BPRA 1947 and Panchayat Samiti and Zila Parishads (Budget and Accounts) Rules, 1964 were being followed. The revised Budget and Accounts Rules for PRIs were to be framed but, the Budget and Accounts Rules for PRIs were not framed by January 2020. The PRIs were maintaining accounts on a cash basis in a single entry system.

1.8.6.2 Annual Accounts

Rule 94 of Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964 stipulates that as soon as possible after the close of the year and not later than 15 April, the total of the receipts and expenditure of the year shall be posted in the prescribed formats of Annual Accounts.

However, the Audit observed that Annual Accounts were not prepared by the five tests checked ZPs²¹ during the period 2017-19. As a result, head-wise receipts as well as expenditure, were not ascertainable and its comparison with the budget estimate was also not possible. On this being pointed out by audit, test checked units replied that the Annual Accounts would be prepared in future.

1.8.6.3 Non-preparation of Budget

Rule 29 of Bihar Panchayat Raj Act, 2006 stipulates that every Gram Panchayat shall, at such time and in such manner as may be prescribed, prepare in each year, corresponding to the financial year of the State Government, a budget of its estimated receipts and disbursements for the following year and shall get it approved in its meeting by a majority of members present and for which the quorum should not be less than 50 per cent of its total numbers of members.

²⁰ GP Dumraith, Babhua and GP Gaundwara Patkaili, Bhawanipur Block (Purnea)

²¹ Arwal, Aurangabad, Gaya, Samastipur and Supaul.

However, the Audit observed that the budget was not prepared by the eight test checked GPs²² during the period 2017-19.

On this being pointed out in the audit, Panchayat Secretary of the GP, Bhauradah replied that due to shortage of staff, the budget could not be prepared whereas other test-checked units replied that the budget would be prepared in future as no direction was issued by the Department in this regard. Replies were not acceptable as preparation of budget was the main component of financial discipline/propriety.

Further, Rule 84 of Bihar Panchayat Raj Act, 2006 provides that every Zila Parishad shall at such time and in such manner as may be prescribed, prepare in each year a budget of its estimated receipts and disbursements for the following year and the same would be passed by the majority of members present in the meeting and quorum for such meeting shall not be less than 50 *per cent* of the total number of members.

However, the audit observed that the Budget was not prepared in two test checked ZPs²³ during the period 2016-17 while two test checked ZPs²⁴ had prepared budget for the period 2016-17 but could not get it passed from the competent authority. Further, ZP Saran had prepared the budget and also get it passed in the ZP meeting but not sent it to the State Government.

On this being pointed out, ZPs replied that the Budget would be prepared and get it passed timely in future. The reply is not acceptable as preparation of the budget is the main component of financial propriety.

1.8.6.4 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 2010) that the accounts of PRIs would be maintained in the MAS formats²⁵ 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 the computerization of accounts of all three levels of PRIs through MAS. It was observed that accounting work was done in PRIASoft till 2014-15 and out of a total of eight MAS formats, only three formats²⁶ were being generated. However, accounting work in PRIASoft was discontinued on 17 April 2015 and State-based GPMS (Gram Panchayat Management System) was adopted as a pilot project in 330 GPs for maintenance of accounts

²² *Bhauradah, Bibi bankatava, Gangi, Jimri Nautanva, Jitwarpur, Musapur, Rewra and Sainchak*

²³ *ZP West Champaran, Bettiah and ZP Lakhisarai*

²⁴ *ZP Jamui and ZP Patna*

²⁵ *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*

²⁶ *Format-I, II and III*

(May 2018). Accounts of aforesaid 330 panchayats for 2018-19 and 2019-2020 have been updated in GPMS.

Thus, after a lapse of nine years since the adoption of MAS formats, maintenance of accounts in MAS formats could not be implemented.

1.8.7 Issues related to AC/DC Bills

Rule 177 of Bihar Treasury Code (BTC), 2011 provides that a certificate would be furnished by the Drawing and Disbursing Officer to the effect that money withdrawn on the contingent bills would be spent within the same financial year and that the unspent amount would be remitted to the Treasury before 31 March of the year. Further, as per Rule 194 of the BTC, 2011 countersigned Detailed Contingent (DC) bills would be submitted to the AG (A&E) within six months following the month in which the Abstract Contingent (AC) bill was drawn and no AC bill would be encashed after the end of this period of six months unless DC bill was submitted.

However, DC bills amounting to ₹ 91.51 crore was not adjusted as of October 2019 against ₹ 1,275.78 crore drawn through AC bills during 2002-18.

The PRD stated (November 2019) that the roster of pending AC Bills was prepared by PRD and was sent to every district for review at the department level. In accordance with the directions issued in the meeting held on 20 November 2019 under the chairmanship of Pr. Secretary, Finance Department, the letter was sent to all DDOs for submission of pending DC bills.

1.8.8 Impact of Audit

The audit suggested for recovery of ₹ 65.83 lakh²⁷ in 20 cases in course of audit of nine tests checked ZPs and one GP during 2016-18 and ₹ 11.07 lakh²⁸ has since been recovered from the person(s) concerned as of August 2017 at the instance of audit.

²⁷ ZP:- Bhabua ₹ 1.00 lakh; Gopalganj ₹ 7.05 lakh; East Champaran, Motihari ₹ 11.79 lakh; Munger ₹ 4.17 lakh; Muzaffarpur ₹ 0.83 lakh; Nalanda ₹ 0.62 lakh; Patna ₹ 1.22 lakh; Rohtas ₹ 1.12 lakh and Vaishali ₹ 35.30 lakh. and GP Modanganj (District- Jehanabad)- ₹ 2.73 lakh.

²⁸ ZPs:-Bhabua- ₹ 0.60 lakh; Gopalganj- ₹ 0.81 lakh; East Champaran, Motihari- ₹ 0.22 lakh; Munger- ₹ 0.93 lakh; Muzaffarpur- ₹ 0.14 lakh; Nalanda- ₹ 0.62 lakh; Patna- ₹ 0.19 lakh; Rohtas- ₹ 1.12 lakh; Vaishali- ₹ 3.71 lakh and GP Modanganj (District- Jehanabad) - ₹ 2.73 lakh.

