OVERVIEW

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This Report contains four chapters. The first and the third chapters contain an overview of the functioning, accountability mechanism and financial reporting issues of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. The second and the fourth chapters contain observations arising out of compliance audits of PRIs and ULBs respectively. A summary of the significant audit findings is presented in this overview.

1. An overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions

Audit arrangements

The 13th Finance Commission had recommended that the Comptroller and Auditor General (CAG) of India 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 the Annual Report of the Director of Local Fund Audit (DLFA), must be placed before the State Legislature. Accordingly, the Government of Bihar (GoB) accepted the terms and conditions for audit of the accounts of LBs under the TGS arrangement in December 2015 and, subsequently, audit of LBs by CAG under the TGS system commenced from January 2017. Since then, the DLFA has been functioning as the primary External Auditor for audit of the LBs.

The DLFA had conducted audit of the accounts of only 1,498 PRIs during 2014-20, out of these Inspection Reports (IRs) of only 407 PRIs (27 per cent) were issued, due to serious manpower constraints. As of August 2021, only 62 audit personnel (20 *per cent*) were working under the DLFA, against the sanctioned strength of 314 posts.

(Paragraph 1.5)

Devolution of functions, funds and functionaries

Eighteen Departments of the GoB transferred their respective functions to PRIs in September 2001 and prepared tier-wise activity mapping of functions/ sub-functions but provisions regarding the devolution of functions and responsibilities to be performed by the three tiers of Panchayats were not made clear and practical. Hence, devolution of functions could not be implemented effectively.

PRIs were unable to levy and collect taxes due to non-framing of Bihar Panchayat (Gram Panchayat, Audit, Budget and Taxation) Rules, despite the recommendation of the State Finance Commissions and relevant provisions in the BPRA, 2006. The functional Departments of the GoB continued to receive budgetary allocations to perform the functions devolved to PRIs and thus the functions of PRIs overlapped with those of the Departments.

PRIs in the State did not have adequate staff to discharge the devolved functions. At the GP level, 6,055 posts (72 *per cent* of the total sanctioned strength of 8,419 posts) of Panchayat Secretary were vacant, whereas 413 posts (20 *per cent* of the sanctioned strength) of Accountant–cum-IT Assistants and 561 posts (27 *per cent* of the sanctioned strength) of Technical Assistants were vacant in PRIs, as of August 2021. There was no separate staff for performing the functions of Panchayat Samitis.

(Paragraph 1.3.3)

Utilisation of funds

As of October 2020, Utilisation Certificates (UCs) of only ₹ 16285.93 crore (41 per cent) were submitted by the PRIs against total grants of ₹ 39788.16 crore released for the period up to FY 2018-19.

(Paragraph 1.7.3)

Internal Audit and Internal Control System of PRIs

The internal audit of PRIs and *Gram Kachahari* for the period 2019-20 to 2021-22, was assigned to Chartered Accountants and the audit was to be completed till September 2020. However, audit of all units was not completed till August 2021. Further, the Department failed to appoint a State Level Audit and Financial Management Consultant to review the work of CA firms, supervision and compilation of reports received from the district at State level, compliances of objections, and other audit-related works at the Department level. (***Paragraph 1.7.5)***

Issues related to Abstract Contingent (AC)/ Detailed Contingent (DC) Bills

As of October 2020, DC bills amounting to ₹ 91.08 crore had not been submitted, against the total amount of ₹ 1275.78 crore, drawn through AC bills, by PRIs, during the financial years 2002-19.

(Paragraph 1.8.6.1)

Accountability Mechanism and Financial Reporting Issues

The accountability mechanism and financial reporting were deficient as *Lok Prahari* for Panchayats had not been appointed; Social Audit for the schemes other than Mahatma Gandhi National Rural Employment Guarantee Schemes was not carried out etc. ***(Paragraph 1.7.1, 1.7.2, 1.8.1.2***

2. Compliance Audit- Panchayati Raj Institutions

Implementation of recommendations of the Fifth State Finance Commission in Panchayati Raj Institutions

The GoB accepted all recommendations of the 5th SFC, with modifications in four major recommendations related to finances of LBs. Out of the total 47 major recommendations, the GoB implemented only six recommendations fully. As such, the purpose of strengthening of PRIs towards self-reliance, as envisaged by the 73rd Constitutional Amendment and recommended by the Central and State Finance Commissions, could not be achieved satisfactorily. The GoB did not transfer any funds to PRIs for the year 2015-16 under the 5th SFC recommendation. Therefore, the 5th SFC recommendations were not implemented for the year 2015-16. Non-tapping of sources to improve revenue from own resources, transfer of funds to PRIs with delays, non-receipt of

UCs, irregularities in execution of schemes etc., indicated lack of financial management and inadequate monitoring by the responsible functionaries. The model staffing pattern as recommended by the 5th SFC, was not implemented and all the PRIs had an acute shortage of manpower at all levels.

(Paragraph 2.1)

Loss of revenue

Zila Parishad, Gopalganj, failed to realise the settlement amount in respect of three sairats from the bidders, which resulted in a loss of revenue, amounting to ₹ 10.11 lakh. ***(Paragraph 2.2)***

Misappropriation of Government Money

Non-adherence to the codal provisions by Gram Panchayat, Mohanpur, regarding grant and adjustment of advances made for the execution of development works, led to misappropriation of ₹ 43.62 lakh, in addition to unfruitful expenditure of ₹ 18.60 lakh on incomplete works.

(Paragraph 2.3)

3. An overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

Devolution of functions, funds and functionaries

Of the 18 subjects referred to in the Twelfth Schedule of the Constitution added after the Seventy Fourth Amendment Act, 1992, functions relating to 13 subjects were being performed by the ULBs and functions of five remaining subjects were still being performed by the concerned Departments of the GoB. Thus, even after a lapse of more than 28 years of the enactment of Seventy- Fourth Constitutional Amendment Act, ULBs were not able to carry out their entire mandated functions.

The Central/State Government had provided funds to ULBs under different heads, such as Central Finance Commission, State Finance Commission, State Plan etc., to carry out the mandated functions of ULBs. ULBs were not able to meet their establishment expenditure from their own sources of revenue. The ULBs in the State had generated ₹ 1,214.57 crore from their own resources during 2015-20, while their establishment expenditure was ₹ 3002.52 crore during the aforesaid period. Hence, ULBs were substantially dependent on the government grants, for performing their mandated functions.

ULBs in the State did not have adequate staff to discharge the devolved functions. As of August 2021, 2982 posts had been sanctioned for ULBs, out of which, only 599 posts were filled up and 2383 posts (80 per cent of the total posts) were vacant. ***(Paragraph 3.3.2)***

Formation of various Committees

The District Planning Committee was constituted in February 2018, with delay and did not exist during the period between 2016 and 2017. Further, Municipal Accounts Committees, Subject Committees and Wards Committees were not constituted in the Municipalities of the State.

(Paragraph 3.4.2)

Audit arrangements

In pursuance of the recommendations of the Central Finance Commissions (13th and 14th FCs), the State Government had notified (June 2015) the establishment of a Directorate of Local Fund Audit, headed by the Chief Controller of Accounts-cum-Director Local Fund Audit (DLFA), under the Finance Department of GoB, to conduct the audit of LBs. This Directorate has been functioning since 11 June 2015. Terms and conditions for audit of the accounts of LBs under TGS arrangement as laid down 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, commenced by the CAG of India, since January 2017. Since then, the DLFA has been functioning as the primary External Auditor.

(Paragraph 3.5)

Poor response to IRs issued by AG (Audit)

As of September 2021, out of the total 5,679 audit paragraphs, contained in 209 IRs, only 1,276 audit paragraphs (22 *per cent*) were settled and 4,403 audit paragraphs involving an amount of ₹ 2,511.49 crore, remained outstanding for settlement.

(Paragraph 3.6.1)

Accountability mechanism and status of financial reporting

The accountability mechanism and status of financial reporting were not adequate, as Lok Prahari (Ombudsman) was not appointed in ULBs, Social Audit of schemes implemented by ULBs was not conducted, Property Tax Board to optimize the collection of Property Tax was not constituted etc.

(Paragraph 3.7 and 3.8)

Utilisation Certificates

As of January 2020, UCs of only ₹ 5,840.63 crore (61 *per cent*) had been submitted by the ULBs, against total grants of ₹ 9,648.86 crore released to them, for the period up to 2018-19.

(Paragraph 3.7.6)

4. Compliance Audit- Urban Local Bodies

Failure of the Nagar Panchayat, Banmankhi, to assess the requirement of submersible pumps, before laying of water supply pipes and provision of connections to households, resulted in unfruitful expenditure of ₹ 2.78 crore.

(Paragraph 4.1)

Failure of the Patna Municipal Corporation to realise Property Tax on accurate classification of the holdings and non-initiation of any action to realize the penalty amount from the owners of the holdings for suppressing material information essential for the calculation of Property Tax, resulted in a loss of tax revenue, amounting to ₹ 1.06 crore. ***(Paragraph 4.2)***