

CHAPTER-V
INTERNAL CONTROL MECHANISM IN GOVERNMENT DEPARTMENTS

URBAN DEVELOPMENT AND HOUSING DEPARTMENT

5 Internal Controls in Urban Development and Housing Department

Highlights

Internal Control System is a process meant to ensure that departmental operations are carried out according to applicable laws, regulations and approved procedure in an economical, efficient and effective manner.

An evaluation of the internal control system in the Urban Development Department (reorganised from year 2007-08 as Urban Development and Housing Department) disclosed several weaknesses such as non-compliance with rules, absence of departmental manuals, lack of discipline in budget preparation, weak expenditure control, poor implementation of schemes and lack of monitoring and evaluation.

Non-observance of budgetary controls resulted in unrealistic budget and seven to 51 per cent savings during the year 2005-2008.

(Paragraph 5.6.2)

Rupees 7.36 crore drawn for various schemes upto the year 2001-02, kept in civil deposit, remained unutilised till March 2008.

(Paragraph 5.6.4)

Health/Education cess of Rs 8.84 crore collected by ULBs was unauthorisedly utilised for payment of salary of staff instead of depositing the same to government account.

(Paragraph 5.7.2)

Loan of Rs 240.75 crore and interest amounting to Rs 102.60 crore was recoverable from Urban Local Bodies.

(Paragraph 5.8.3)

Compliance of audit paragraphs issued by internal audit was poor.

(Paragraph 5.10)

5.1 Introduction

An internal control system is a process meant to ensure that departmental operations are carried out according to applicable laws, regulations and approved procedure in an economical, efficient and effective manner. The Government of India (GOI) has prescribed comprehensive instructions on maintenance of internal controls in Government departments through General Financial Rules, 2005. Similar provisions are there in Bihar Financial Rules to ensure adherence to internal controls within the department. The provisions contained in the Municipal Acts and Rules framed there under provide the framework for ensuring internal control within the Urban Local Bodies.

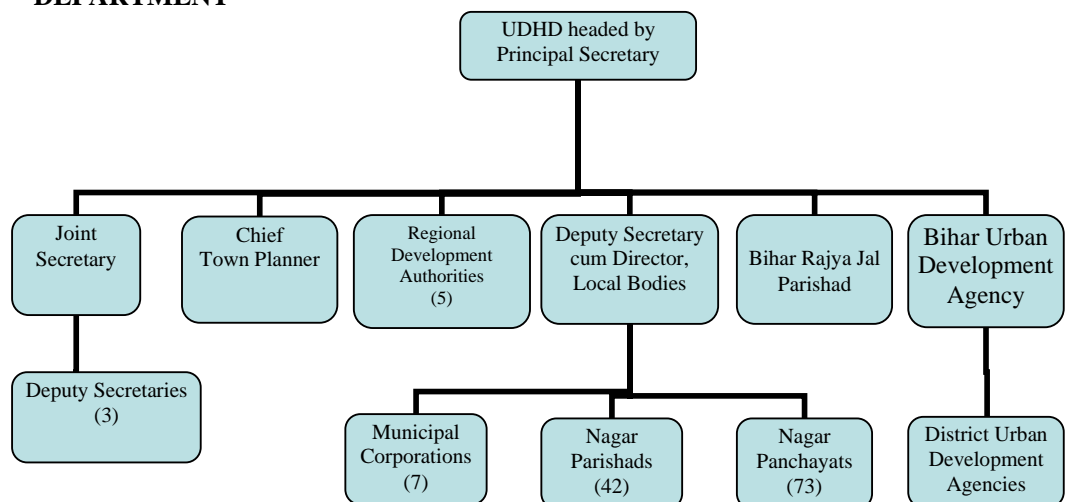
In Bihar, 10.5 per cent of the total population (82.8 million) of the State resides in urban areas as compared to the national average of 28 per cent. The overall objective of the Urban Development and Housing Department (UDHD) is to provide civic amenities to people in urban areas through Urban Local Bodies (ULBs) and facilitate the development process as per rules and guidelines so that cities can grow and develop in a planned and environment friendly way.

The finances of ULBs are mainly tax and non tax receipts generated from their own resources, grants/loans received from Union/State Government to implement various schemes and to meet day to day establishment expenditure.

5.2 Organisational set-up

The Principal Secretary is the head of department and is assisted by a Joint Secretary and three Deputy Secretaries. The Chief Town Planner provides technical assistance to the Principal Secretary. At the ULB level, the department coordinates the development programmes through Chief Executive Officer(s) in Municipal Corporations (7) and Executive Officers in Nagar Parishads (42) and Nagar Panchayats (73). The Chief Executive Officers/ Executive Officers are responsible for general supervision, control over the officials of the ULB, organise board meetings, get the budget estimates prepared, monitoring and implementation of schemes including acting as DDO of the ULB. Besides, five¹ Regional Development Authorities are also responsible for developmental activities in their respective regions. Bihar Rajya Jal Parishad, Patna, an independent body created under the Bihar Act, 1988 is responsible for maintenance and operations of water supply and sewerage system in the state. The organisational chart is given below:

ORGANISATION CHART OF URBAN DEVELOPMENT AND HOUSING DEPARTMENT



¹ Regional Development Authorities: Bhagalpur, Darbhanga, Gaya, Muzaffarpur and Patna.

5.3 Audit objectives

The audit objectives were to assess the adequacy and effectiveness of the,

- financial control mechanisms;
- implementation of Acts, rules and regulations;
- administrative and operational controls ;
- monitoring and evaluation of data/schemes; and
- management information system and internal audit mechanism.

5.4 Audit criteria

The following audit criteria were adopted for assessing the internal controls in the department:

- Bihar Budget Manual, The Bihar Financial Rules, Bihar Treasury Code;
- The Bihar Municipal Act, 1922, The Bihar Municipal Act 2007 and Bihar Municipal Accounts Rule, 1928;
- Acts/Rules in respect of Boards/agencies responsible for providing civic amenities and
- Guidelines/instructions issues by the department apart from scheme guidelines.

5.5 Audit coverage and methodology

A review on internal control mechanism in UDHD for the year 2005-08 was conducted during April 2008 to July 2008 through test check of records at Secretariat, Patna Regional Development Authority (PRDA), Bihar Urban Development Agency (BUDA) and 30² out of 122 ULBs. The selection of ULBs was made by random sampling. An entry conference was held on 15 May 2008 with the Principal Secretary where in the audit objectives, scope and methodology was discussed. An exit conference was held on 18 November 2008; department's replies are incorporated at appropriate places in the text. The results of the review are presented in the succeeding paragraphs.

² *Ara, Banka, Bodhgaya, Buxar, Bihiya, Bhagalpur, Bahadurganj, Bhabhua, Banmankhi, Danapur, Gaya, Jagadishpur, Jainagar, Kanti, Kishanganj, Koelwar, Kahalgaon, Khagaul, Khushropur, Madhubani, Maharajganj, Munger, Muzaffarpur, Motipur, Nawgachia, Piro, Purnia, Shahpur, Siwan and Saharsa.*

Audit Findings

5.6 Financial / Budgetary controls

5.6.1 Submission of budget estimates

As per Section 71 of Bihar Municipal Act, 1922, at the ULB level, the Executive Officers are primarily responsible for preparation of budget and to assist the municipal board in scrutinizing / sanctioning the budget estimates. A copy of the sanctioned budget estimates is to be submitted to State Government under Section 73 of the Act. Further, Section 84 of the Act provides for budget estimates of ULBs to be checked by State Government/ Director of Local Bodies and returned to the concerned ULB before 31 March of previous financial year.

Scrutiny revealed that only 10³ of the 30 test-checked ULBs were able to prepare their budget estimates as per prescribed time schedule. In 10 ULBs⁴ record relating to budget preparation was not furnished to audit. In case of five ULBs⁵, budget estimates were not prepared for last one to three years, while in another five⁶ the budget proposals were being sent to the Administrative Department in April of the respective years after these had been sanctioned by their board in March. On an average there was delay of four to nine months in the preparation of budget.

Non-compliance of codal provisions indicated weak budgetary control as incurring expenditure without budget undermines the importance of prioritisation of resource allocation.

5.6.2 Inadequacy in budget estimation

Budget allocations and expenditure thereagainst for the UDHD are depicted in Table No.1

Table No. 1

Details showing grant, expenditure and savings

(Rupees in crore)

Year	Grant		Total Grant	Expenditure	Savings		Surrender
	Original	Supplementary			Amount	Per cent	
2005-06	302.29	2.96	305.25	282.58	22.67	7.50	22.61
2006-07	684.39	52.04	736.43	384.67	351.76	47.76	319.60
2007-08	791.82	356.14	1147.96	556.19	591.77	51.54	591.88
Total	1778.50	411.14	2189.64	1223.44	966.20	44.13	934.09

(Source: Appropriation Accounts)

³ Ara, Banka, Buxar, Banmankhi, Bhagalpur, Danapur, Khagaul, Piro, Saharsha and Siwan.

⁴ Bodhgaya, Bihiya, Bahadurganj, Gaya, Jainagar, Kishanganj, Kahalgaon, Koelwar, Naugachiya and Sahpur.

⁵ Bhabhua, Kanti, Khusropur, Maharajganj and Motipur.

⁶ Muzaffarpur, Munger, Madhubani, Purnia, Jagdishpur.

As per Bihar Budget Manual, the budget estimates consolidated by the department should be as accurate as possible and Head of department/ Controlling officer should ensure timely re-appropriation/ surrenders in the event of savings/excess.

Supplementary grants proved unnecessary

- Scrutiny of records revealed that the Department was preparing budgets without assessing the actual requirement of funds from field offices. This is evident from sanction of unnecessary supplementary grant leading to huge savings of 47.76 *per cent* in 2006-07 and 51.54 *per cent* in 2007-08 which was mainly due to non-completion/ implementation of the schemes by the department despite availability of fund, non accordance of sanction by the Finance Department etc.
- The supplementary grants of Rs 411.14 crore in addition to the original grant of Rs 1778.50 crore proved unnecessary as there were savings of Rs 966.20 crore during 2005-08. Besides, Rs 934.09 crore (96.68 *per cent*) out of the total savings was surrendered on the last day of financial years instead of timely assessment and surrender. Non-adherence to the provisions of financial rules/ budget manual indicated poor budgetary control mechanism in the Department.
- Surrender of Rs 591.88 crore in 2007-08 exceeded the final savings (Rs 591.77 crore) by Rs 11 lakh. Excess surrender was in anticipation of savings which resulted in excess expenditure and indicated weak internal control mechanism.

5.6.3 *Monitoring of expenditure*

Rule 4 of the Bihar Municipal Account Rules provides for maintenance of basic registers viz. Government Grant Register, Loan Register and register of expenditure etc. in each ULB.

Expenditure control record /register were not maintained

In all test-checked ULB's, it was seen that basic records and registers as indicated above were not maintained. As a result position of expenditure made out of grant/loans etc. by these ULBs could not be ascertained by the department. This indicated that the department could not exercise effective control over expenditure as required under provisions of relevant acts/rules.

5.6.4 *Scheme funds kept in Civil Deposit*

Rule 107 (3) of Bihar Budget Manual read with Rule 300 of Bihar Treasury Code provides that no money should be withdrawn from treasury unless it is required for immediate payment. It is not permissible to draw money in advance to prevent the lapse of allotment/ appropriations or in anticipation of demand for the execution of work, the completion of which is likely to take a considerable time.

Rs 7.36 crore kept in Civil Deposit for six years which remained unutilised

No register indicating the quantum of funds booked under head Civil Deposit was maintained by the Department. In absence of any register the amount kept in civil deposit has been worked out on the basis of treasury challans copies furnished to audit. It was noticed that Rs 7.36 crore relating to various schemes were drawn on different occasions up to the year 2001-02 and kept in civil deposit. The amount was drawn at the fag end of the financial years. The amount kept in civil deposit remained unutilised as of March 2008 which indicated weak financial control.

5.7 Compliance with Bihar Treasury Code, Municipal Accounts Rule

5.7.1 Maintenance of cash book

Under Rules 15, 63 and 66 of Bihar Municipal Accounts Rule 1928, every ULB is required to maintain a cash book in prescribed form. The cash book is to be balanced at the close of every month and signed by concerned Executive Officer (being the DDO)/ Chairman/ Vice Chairman/ Secretary in token of correctness. Details of closing balance and cash balance are to be certified in the cash book. The reconciliation of cash book balances with Account maintained by treasury is to be done on monthly basis in terms of the Bihar Municipal Accounts Rules.

Periodical reconciliation of cash book maintained by ULBs was not done

In 30 test-checked ULBs, the following irregularities were noticed:

- In four ULBs⁷ cash book balances were not certified, while remaining 26 ULBs had the balances certified by the executive officers concerned.
- In five ULBs⁸, details of the closing balances were not mentioned while in case of 10 ULBs⁹ there was nil/negligible¹⁰ balances in the treasury account. Out of remaining 15 ULBs¹¹ cash balance of Rs 37.53 crore was retained in the accounts maintained by treasuries.
- None of the ULBs (except Munger) had reconciled the cash book balances with the balances in account maintained by treasuries concerned. In Gaya Municipal Corporation, due to non-reconciliation of cash book with accounts maintained by treasury, difference of Rs 10.75 crore as of March 2008 was noticed.

⁷ Bhagalpur, Jainagar, Khusropur and Siwan.

⁸ Bodhgaya, Bihiya, Bhagalpur, Bahadurganj and Kanti.

⁹ Ara, Banka, Jainagar, Khusropur, Koelwar, Madhubani, Muzaffarpur, Motipur, Munger and Shahpur.

¹⁰ Munger (Rs 122.00).

¹¹ Buxar, Bhabua, Banmankhi, Danapur, Gaya, Jagdishpur, Kishanganj, Kahalgaon, Khagaul, Maharajganj, Naugachiya, Piro, Purnia, Saharsha and Siwan.

On being pointed out, the Gaya municipal authority stated (March 2008) that the treasury has not been certifying the accounts since 1983 and the matter has been referred to the District Magistrate. The reply is not tenable as the codal provisions of cash book maintenance required monthly reconciliation. Replies were not furnished to audit by other 29 test-checked ULBs

The department accepted this (November 2008) and stated that suitable action will be taken.

5.7.2 Levy of cess

- As per Bihar Health Cess Rules, 1972, health cess at the rate of 50 per cent (from 1 April 1982) of holding tax is to be collected by ULBs and deposited into Government Account after deduction of 10 per cent as collection charges. The collected cess (90 per cent) is to be utilised for development of health services. The ULBs were also to submit monthly returns in respect of realised health cess to the Health Department. Rule 22 of the Bihar Municipal Rules prohibits meeting expenditure from departmental receipts.
- In 13 test-checked ULBs¹², separate details of health cess/education cess collected were not maintained. Monthly returns were not being submitted in any test-checked ULBs
- It was seen that 17¹³ out of 30 test-checked ULBs had collected Rs 4.42 crore on account of health cess during 2005-08 and spent the collected amount on pay and allowances of the staff instead of depositing Rs 3.98 crore (90 per cent) into treasury.
- Similarly under Bihar Primary Education Rules, 1959, education cess at the rate of 50 per cent (from 1 April 1982) is levied for free primary education in the State. The amount collected is to be deposited in Government Account. In contravention to Rule 22 of the Bihar Municipal Rules, 17¹³ out of 30 test-checked ULBs collected education cess of Rs 4.42 crore during 2005-08 and utilised this amount towards establishment expenditure, which led to unauthorised expenditure of education cess.

Amount collected as health cess (Rs 4.42 crore)/ education cess (Rs 4.42 crore) were not deposited in treasury as per rules

Thus, lack of effective controls led to unauthorised utilisation of health/ education cess collected by ULBs under existing rules.

¹² Bahadurganj, Bodhgaya, Bhabhua, Banmankhi, Jainagar, Jagadishpur, Koelwar, Kahalgaon, Kanti, Kishanganj, Motipur, Naugachiya and Shahpur.

¹³ Ara Rs 31.69 lakh, Banka Rs 0.21 lakh, Bhagalpur Rs 89.33 lakh, Bihariya Rs 0.89 lakh, Buxar Rs 4.39 lakh, Danapur Rs 9.99 lakh, Gaya Rs 65.37 lakh, Khagaul Rs 0.94 lakh, Khusropur Rs 0.36 lakh, Munger Rs 30.39 lakh, Muzaffarpur Rs 150.83 lakh, Madhubani Rs 7.77 lakh, Maharajganj Rs 0.04 lakh, Piro Rs 0.86 lakh, Purnia Rs 31.90 lakh, Saharsa Rs 18.46 lakh and Siwan Rs 10.58 lakh.

On being pointed out, the department accepted the fact and stated that the amount was also spent on sanitation and maintenance works in the ULBs. The reply was not tenable as the amount collected as cess was required to be deposited into Government Account.

5.8 Administrative controls

Though, Bihar Municipal Act 2007 was enacted in April 2007, no rules/regulations, procedure have been framed under the Act except Bihar Municipal Election Rules.

5.8.1 Preparation of accounts in new format

The department had not adopted new accounting format

The Comptroller and Auditor General of India in March 2004 had suggested appropriate budget and accounting formats for the ULBs. The format was circulated by the Ministry of Urban Development to all States for uniform adoption. Accordingly, the State Government/department was requested repeatedly for adoption and creation of data base in new formats. Meetings/Seminar between the Principal Accountant General, the Principal Secretary and Chief Executive Officers of ULBs was held. However it was seen that in none of the test-checked ULBs the account was being prepared as per the prescribed format. Thus, there is no uniformity in the format of accounting adopted or being followed by each ULB.

On being pointed out, the department accepted the audit point and stated (November 2008) that in case of 49 ULBs, private agencies have been identified and deployed to maintain the accounts and train the personnel of ULBs as they are not well versed with the new system of accounts.

5.8.2 Non adjustment of advances

As per Rule 611 of the Bihar Treasury Code, read with Rule 74 of the Bihar Municipal Account Rules, money should not be given as advance unless there are reasons to believe that work for which the money is required, will be completed and paid for within the financial year. The advances made to the Government servants for miscellaneous and contingent nature of works are required to be adjusted within 15 days from the date of advance.

Advances of Rs 16.75 crore were outstanding against government servants in 15 ULBs

In 15¹⁴ out of 30 test-checked ULBs, it was seen that Rs 16.75 crore was given as advances to 650 government officials for execution of schemes upto March 2008 out of which Rs 12.76 crore was given as advance upto 2004-05. The advances were pending for adjustment till March 2008. It was further observed

¹⁴ Bodhgaya Rs 7.23 lakh, Khagaul Rs 2.30 lakh, Madhubani Rs 45.14 lakh, Gaya Rs 251 lakh, Jainagar Rs 4.93 lakh, Munger Rs 155.75 lakh, Kahalgaon Rs 1.94 lakh, Buxar Rs 164.56 lakh, Jagdishpur Rs 0.33 lakh, Kishanganj Rs 3.43 lakh, Danapur Rs 710.77 lakh, Purnia, Rs 74.02 lakh, Banka, Rs 1.65 lakh and Muzaffarpur 94.35 lakh and Siwan Rs 157.51 lakh.

that out of 650 government officials, eight officials with outstanding balance of Rs 2.75 lakh had expired and seven officials with outstanding balance of Rs 1.37 crore were transferred to other offices without adjustment of advances (*Appendix-5.1*). In 15 test-checked ULBs, the advance registers were not

No advance register was maintained in 15 ULBs

maintained and as such the position of outstanding advances could not be ascertained.

- In addition to above, the Government of Bihar provided (March 2006) Rs 1.76 crore for construction of the roads in Jainagar Nagar Panchayat under the Border Area Development Scheme. Out of Rs 1.76 crore, two¹⁵ *amins*¹⁶ were given advance of Rs 76.65 lakh (April 2006) for execution of 20 works and for the remaining 10 works an advance of Rs 1.88 lakh was given (May 2007) to a Junior Engineer¹⁷. Though the schemes were required to be completed in one year they were neither completed nor the advances adjusted till the date of audit (July 2008). Substantial amount of advance given to these officials from time to time was also not as per Bihar Public Works Code which provides that advances for implementation of works are not to be given to the officials below the rank of Sub-Divisional Officer.

Delays in adjustment of outstanding advances and non-maintenance of advance registers were not only indicative of improper monitoring but also fraught with the risk of misappropriation of Government money.

5.8.3 Maintenance of loan register

As per Rule 360, Rule 361 and Rule 369 of Bihar Financial Rules, the department is required to maintain a ledger to monitor the loans sanctioned and watch its recovery. At the ULB level, Rule 4 (A) of the Municipal Account Rules 1928 provides for maintenance of loan register and appropriation register of loan funds.

The department had not maintained loan ledger

Scrutiny revealed that neither the department nor any test-checked ULBs had maintained loan registers. As per Finance Accounts of Government of Bihar, Rs 343.35 crore (loan Rs 240.75 crore and interest Rs 102.60 crore) was outstanding against the ULBs in the state up to 2007-08. Of this, in four test-checked ULBs¹⁸ the outstanding loan as reported by the ULBs was Rs 27.24 lakh. Other test-checked ULBs could not produce loan details as loan registers were not maintained.

¹⁵ Sri Surja Deo Prasad (Rs 73.44 lakh) for 19 schemes and Bimal Kumar Chaudhary (Rs 3.21 lakh) for one scheme.

¹⁶ Amin-A government servant who measures the area of the land.

¹⁷ Sri Janardan Thakur, Junior Engineer for 10 schemes.

¹⁸ Buxar, Khagaul, Kishanganj and Siwan.

In absence of loan registers recovery/repayment of loans could not be ensured/monitored.

5.8.4 Issue of tax demand notice

Section 158 of Bihar Municipal Act 2007 provides that to ensure payment and recovery of its tax dues, the municipality shall, by regulations, provide for issue of demand, charging of notice fee, levy of interest for delayed payment at prescribed rates. Further, Rule 10 and Rule 39 of the Municipal Account Rules (Recovery of Taxes), 1951 provides for maintenance of Demand and Collection Register in Form B and preparation of list of outstanding taxes therefrom.

Demand for Rs 24.38 crore in test-checked district was pending for collection

It was seen that regulations for payment and recovery of tax dues were not made in any test-checked ULB. Neither notices of demands were issued regularly nor were Demand and Collection Registers maintained. However, the ULBs furnished figures of Demand, Collection and balance of taxes on the basis of rough demand register available or maintained with tax collectors, the accuracy of which could not be ensured. In 20¹⁹ out of 30 test-checked ULBs, as against a demand of Rs 33.03 crore, only Rs 8.65 crore (26.30 per cent) was collected by the ULBs leaving the balance of Rs 24.38 crore as arrear for collection.

5.8.5 Man Power Management

The manpower of an organisation should be utilised in an appropriate manner so that optimum output is derived within available resources. However, the Department did not furnish any information regarding sanctioned strength, men-in-position, vacancies etc. though called for. The third State Finance Commission allowed expenditure on pay and allowances for 2007-08 but recommended that expenditure on manpower shall be reduced by 20 per cent each year and simultaneously ULBs were supposed to meet the expenditure through their own resources and be self-sufficient in course of time.

There was shortage of 40 per cent of manpower in ULBs

As per sanctioned strength and men-in-position status provided by 27 out of 30 test-checked ULBs, only 3,607 officials were working against a sanctioned strength of 6,087. Thus there was shortage of 2,480 persons (40 per cent) against the sanctioned strength. The ULBs of Banmankhi, Motipur and Shahpur did not provide sanctioned strength of manpower. The shortage of staff at different level affected the overall working of the department and effective implementation of welfare schemes for intended beneficiaries.

The department accepted and stated that the matter is under consideration for delegation of power to the concerned ULBs for appointment of necessary staff.

¹⁹ Ara, Banmankhi, Barh, Bihiya, Bhabhua, Buxar, Danapur, Jagadishpur, Kishanganj, Khusrupur, Madhubani, Maharajganj, Munger, Muzaffarpur, Motipur, Nawgachhia, Piro, Purnia, Saharsa and Siwan.

5.8.6 Maintenance of asset register and verification of stock

As per Rule 138 of Bihar Financial Rules read with Rule 100 to 102 Bihar Municipal Accounts Rules, every unit/ULB is required to maintain a register of all immovable government property including land and building within its jurisdiction.

No ULBs/ RDAs had maintained any asset register of available government property

It was seen that none of the test-checked units/ ULBs have prepared any asset register. As a result, the management had no record of the assets created/ acquired so as to ensure their safe custody/ maintenance.

Further, under Rule 143 of Bihar Financial Rules, annual physical verification of stock is required to be done. None of the test-checked ULB conducted the annual verification of stock as per stock register. As a result the ULBs were not in a position to ascertain actual position of stock, excess/ shortages/ obsolete stock etc. and to initiate necessary action as per rules.

5.9 Operational Controls

For accelerated and planned development of cities in the State, the GOI had launched three new schemes from 2005-06 namely;

- Jawahar Lal Nehru National Urban Renewal Mission (JNNURM)
- Integrated Housing and Slum Development Programme (IHSDP)
- Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)

In Bihar, for JNNURM, cities of Patna and Bodhgaya were identified while IHSDP and UIDSSMT were to be implemented in all cities except those covered under JNNURM. For approval of the DPRs and monitoring of schemes in the State, a State Level Sanctioning Committee (SLSC) under the chairmanship of Development Commissioner was constituted in January 2006. The approved DPRs were to be forwarded to GOI for release of fund. To facilitate the preparation of DPRs and to channelise funds and for implementation of the schemes (as per scheme guidelines), a state level nodal agency, the Bihar Urban Development Agency (BUDA) and at the district level, District Urban Development Agencies (DUDA) were formed. The BUDA and DUDAs are the societies constituted by the State Government under the Society Registration Act 1860. The main objective of BUDA is to formulate and suggest to the State Government various policy options for the alleviation of urban poverty and to facilitate/ advise the DUDAs in implementation of schemes for the benefit of identified beneficiaries. The BUDA was required to obtain the DPRs of schemes from concerned DUDAs and submit to SLSC for approval and onward transmission to GOI/ GOB for release of fund.

Operational control deficiencies as noticed in execution of schemes/ programmes undertaken by the department during 2005-08 are given in succeeding paragraphs.

5.9.1 Integrated Housing and Slum Development Programme (IHSDP)

The Integrated Housing and Slum Development Programme, (to be shared in the ratio of 80: 20 by the Centre and the State) aimed for upgradation/ construction of houses for slum dwellers. The ceiling cost²⁰ of a dwelling unit (construction of house) was fixed at Rs 80 thousand which was to be reviewed after one year by a High Power Committee of the concerned department. The assistance was to be provided on the basis of approved DPRs of ULBs.

It was seen that out of 120 ULBs (excluding Patna and Bodhgaya), the department could obtain DPRs for 10 ULBs only which was approved for Rs 80.73 crore by the GOI in March 2007. The department withdrew the installment of Rs 28.86 crore between June 2007 and February 2008 for these 10²¹ ULBs and transferred the same to BUDA in March 2008 for the execution as per approved DPRs. For the remaining 110 ULBs, DPRs had not been prepared (August 2008).

Scrutiny further revealed that the department had awarded the work of construction of houses to an agency²² on 4th March 2008. In July 2008, the agency intimated that the construction of houses at the rate of Rs 80 thousand was not possible. After this, the high power committee of the department raised the ceiling cost to Rs 1.20 lakh per unit in case of ULBs (July 2008 and September 2008).

Thus, the scheme initiated in 2005-06 could not take off as DPRs were not prepared in 110 ULBs. This indicated weak monitoring of scheme and denial of benefit to urban slum dwellers. The department accepted (November 2008) and stated that corrective action would be taken.

5.9.2 Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)

The Urban Infrastructure Development Scheme for Small and Medium Towns aimed for development of urban infrastructure viz. widening of roads, renewal of water supply system, sewerage/drainage and preservation of water bodies etc. The scheme fund was to be shared between Central and State Governments in the ratio of 80:20.

²⁰ Ceiling Cost- Maximum amount fixed by the government to construct a house.

²¹ Kanti, Aurangabad, Narkatiaganj, Motipur, Rosera, Sheikhpura, Bhagalpur, Kishanganj, Bahadurganj and Purnia.

²² M/s Hindustan Prefab Limited.

Scrutiny revealed that out of 120 ULBs (excluding Patna and Bodhgaya) the department could obtain the DPRs in respect of nine ULBs²³ in January 2007. These DPRs for Rs 152.57 crore (*Appendix 5.2*) were got approved by the State Level Sanctioning Committee in January and March 2007 and sent to GOI for approval and release of fund. The GOI released the fund for these ULBs in March 2007 but the department could not withdraw fund from the State Government as fund was sought at the fag end of the financial year 2006-07. The department, however, withdrew Rs 75.43 crore (Rs 15.26 crore of GOB share and Rs 60.17 crore of GOI share) in March 2008 and transferred the amount (Rs 74.57 crore) to concerned nine ULBs in August 2008 through BUDA.

Scrutiny further revealed that the work on the said scheme could not commence in any of nine ULBs for which fund were available. The DPRs in respect of remaining 111 ULBs were not prepared and submitted to GOI as of October 2008.

Thus, the scheme launched in 2005 was still languishing (November 2008) due to lack of coordination, poor monitoring, weak internal control and this resulted in denial of benefits to urban population.

5.10 Internal audit

The audit wing of the Finance Department conducts the audit of UDHD. During 2005-08, the audit wing of Finance Department issued 34 audit paragraphs having monetary implication of Rs 5.84 crore. Compliance on these audit paragraphs has not been made till the date of audit (July 2008).

There is no system of internal audit of ULBs. The Examiner, Local Fund Accounts (LFA), Bihar conducts audit under the overall supervision of Principal Accountant General, Bihar. The compliance report on the observations issued by Examiner, LFA is to be sent within three months. Details of inspection reports issued by Examiner, LFA as on 31 March 2008 and awaiting settlement are given in Table No. 2:

Table No.2
Position of settlement of outstanding audit paragraphs during 2005-08
(Rupees in crore)

Year	No of IRs issued	No. of paragraphs	Amount	No. of Paragraph settled	Amount involved	Balance paragraphs	Balance amount
Upto 2004-05	989	20,063	163.79	2,507	17.75	17,556	146.045
2005-06	25	782	48.07	36	0.30	746	47.77
2006-07	51	1,828	64.22	109	0.01	1,719	64.21
2007-08	37	1,269	55.40	13	NA	1,256	55.40
Total	1,102	23,942	331.48	2,665	18.06	21,277	313.42

There was huge pendency in settlement of paragraphs issued by Examiner LFA, Bihar

²³ Bakhtiarpur, Barbigha, Bhabhua, Chakia, Fathuah, Murliganj, Narkatiaganj, Lalganj and Rosera.

Table No.2 indicates that only 11 *per cent* of outstanding paragraphs from the ULBs could be settled, which indicated that compliance mechanism for settlement of outstanding paragraphs was inadequate. On this being pointed out, the department has formed a separate audit section in June 2008 for compliance of audit paragraphs.

5.11 Complaint Redressal Mechanism

During 2006-08, the department received 786 and 226 complaint cases from the Chief Minister Secretariat and Chief Secretary respectively relating to development work, tenders and allotment of shops etc. The cases were forwarded to local bodies or concerned authorities for reply. However, reply in respect of only 415 cases and 22 cases respectively were received. No follow up action was taken by the Department on the remaining cases. Records of complaint cases prior to year 2006-07 were not maintained. Lack of prompt action on complaint cases by the UDHD also depicts poor control mechanism.

The department accepted (November 2008) and stated that a public grievance cell has been formed.

5.12 Monitoring

Periodical inspections of offices were not conducted. The department had not prepared municipal manual

Departmental Manuals contain rules, regulations, procedures and instructions relating to particular department and periodicity of report returns to be submitted to the appropriate authorities etc. apart from guidelines for the execution of schemes in the department. It is essential for exercising proper internal checks over various departmental activities of an organisation. No departmental manual relating to municipality had been prepared to date, though as per Section 87 of Bihar Municipal Act 2007 there is a provision for State Government to prepare and maintain a manual. Section 88 and 89 of the Act *ibid* also provides for preparation of Annual Financial Statement containing Income and expenditure statement Account and Balance Sheet in the formats to be notified by State Government. The notification has not yet been issued.

5.13 Conclusion

An evaluation of the internal control system in Urban Development and Housing Department disclosed non-observance of rules contained in Bihar Financial Rules, Budget Manual, Bihar Treasury Code and Municipal Accounts Rules which resulted in weak financial and expenditure control of ULBs at every stage. The budgetary control mechanism was poor as evident from huge savings and surrenders. The civic amenities programmes failed to deliver the intended benefit to the targeted population due to non-implementation of schemes. The department has not prepared its own manual. Monitoring, evaluation and complaint redressal mechanism were not adequate. Compliance to the audit observation was inadequate.

5.14 Recommendations

The Department may strengthen its internal control mechanism by:

- adhering to the laid down procedures for maintenance of records/ registers;
- preparing departmental manual to monitor and regulate departmental activities;
- utilisation and effective monitoring of funds;
- maintaining asset register and
- strengthening complaint redressal mechanism.

Patna
The

(ARUN KUMAR SINGH)
PRINCIPAL ACCOUNTANT GENERAL (AUDIT), BIHAR

Countersigned

New Delhi
The

(VINOD RAI)
COMPTROLLER AND AUDITOR GENERAL OF INDIA