



**Annual Technical Inspection Report  
on  
Local Bodies**

**For the year ended 31 March 2020**



**SUPREME AUDIT INSTITUTION OF INDIA**  
लोकहितार्थ सत्यनिष्ठा  
Dedicated to Truth in Public Interest



**Government of Bihar**

*Office of the Accountant General (Audit), Bihar*

**Annual Technical Inspection Report  
on  
Local Bodies  
For the year ended 31 March 2020**

**Government of Bihar**



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## **PREFACE**

This Report, for the year ended March 2020, has been prepared for submission to the Governor of Bihar, in terms of Technical Guidance and Support to audit of PRIs and ULBs, under Section 20(I) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The Report contains significant results of the audit of the Panchayati Raj Institutions and Urban Local Bodies in the State including the departments concerned.

The issues noticed in the course of test audit for the period April 2019 to March 2020, as well as those issues which came to notice in earlier years, but could not be dealt with in the previous Reports, have also been included, wherever necessary.

The audit has been conducted in conformity with the auditing standards issued by the Comptroller and Auditor General of India.







# **OVERVIEW**



## OVERVIEW

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 13<sup>th</sup> 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 5<sup>th</sup> 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 73<sup>rd</sup> 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 5<sup>th</sup> SFC recommendation. Therefore, the 5<sup>th</sup> 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 5<sup>th</sup> 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 (13<sup>th</sup> and 14<sup>th</sup> 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.

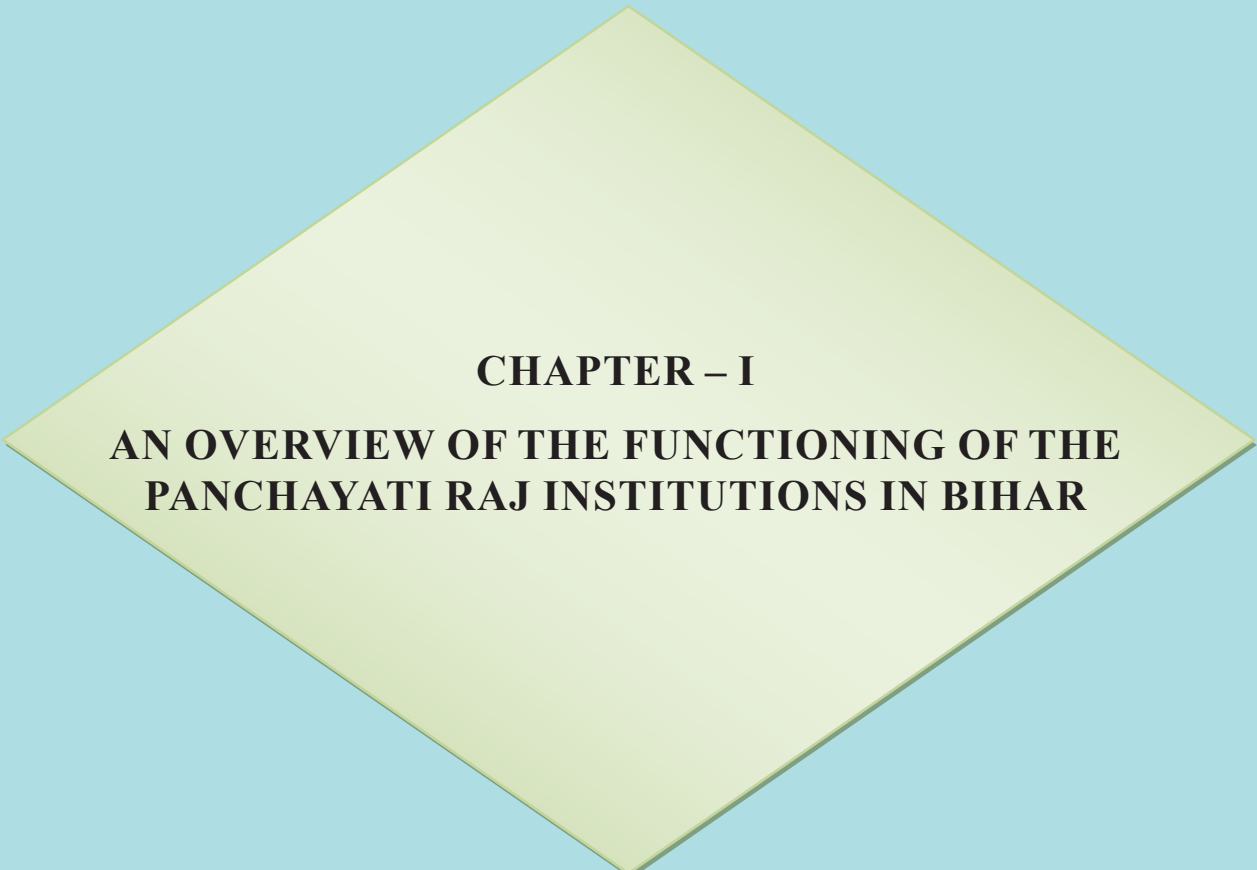
***(Paragraph 4.2)***



**PART – A**  
**PANCHAYATI RAJ INSTITUTIONS**







**CHAPTER – I**  
**AN OVERVIEW OF THE FUNCTIONING OF THE**  
**PANCHAYATI RAJ INSTITUTIONS IN BIHAR**



## Chapter – I

### An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions

#### An Overview of the Functioning of the Panchayati Raj Institutions in the State of Bihar

##### 1.1 Introduction

The Seventy-Third Constitutional Amendment Act, 1992, gave constitutional status to the Panchayati Raj Institutions (PRIs) and established a system of uniform structure (three tiers of PRIs); elections; reservation of seats for Scheduled Caste, Scheduled Tribes and women; and devolution of funds, functions, and functionaries to PRIs. 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 concerning 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 Sabha<sup>1</sup> at the GP level and Ward Sabha<sup>2</sup> at the Ward level had been made. The Ward Sabha, through the Ward Implementation and Management Committee, implements several schemes of public importance, assigned to the Ward, by the GP.

As of August 2021, there were 8,644 PRIs<sup>3</sup>, having 1,33,643<sup>4</sup> elected representatives (declared as a public servant by the GoB), in the State. Fifty *per cent* horizontal reservation, of the total seats of elected bodies of PRIs, was provided for women. The last general election to the elected bodies of PRIs was held in the State during April-May 2016 and its tenure expired in June 2021. Due to COVID - 19 pandemic, elections for PRIs could not be conducted in time and Advisory Committees were constituted, in place of the dissolved PRIs, till the completion of the elections of PRIs, for carrying out the mandated functions.

##### 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 rate in Bihar, in the last decade, was 25.4 *per cent*. The rural

<sup>1</sup> *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.*

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

<sup>3</sup> *38 ZPs, 534 PSs and 8,072 GPs*

<sup>4</sup> *Mukhiya-8,072, Member of GP-1,13,307, Member of PS-11,104, and Member of ZP-1,160.*

population was 8.77 crore (84 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	Per sq. km.	1,106
Rural Population	Crore	8.77
Gender Ratio	Females per thousand males	918
Literacy	Per cent	61.80
Number of districts	Number	38
Number of PRIs*	Number	8,644
Decadal growth rate	Per cent	25.42
Rural Sex Ratio	Females per thousand males	921

(Source: Census 2011, Economic Survey, GoB for the year 2020-21 and information provided by the Department)

\*Note: The number of GPs reduced from 8,387 to 8,072 (August 2021) due to the formation of new Urban Local Bodies, after the conversion of rural areas into urban areas.

## 1.2 Organisational set-up

At the State level, the Panchayati Raj Department (PRD) coordinates and monitors the functioning of the 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 the 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 Officer are the executive heads of the ZP and the PS, respectively. The Panchayat Secretary is incharge of the office of the GP and is also responsible for the maintenance of books of account and records at the GP level. The organisational structure of PRIs is depicted in **Charts - 1.1 & 1.2** below:

**Chart – 1.1: Elected Bodies**

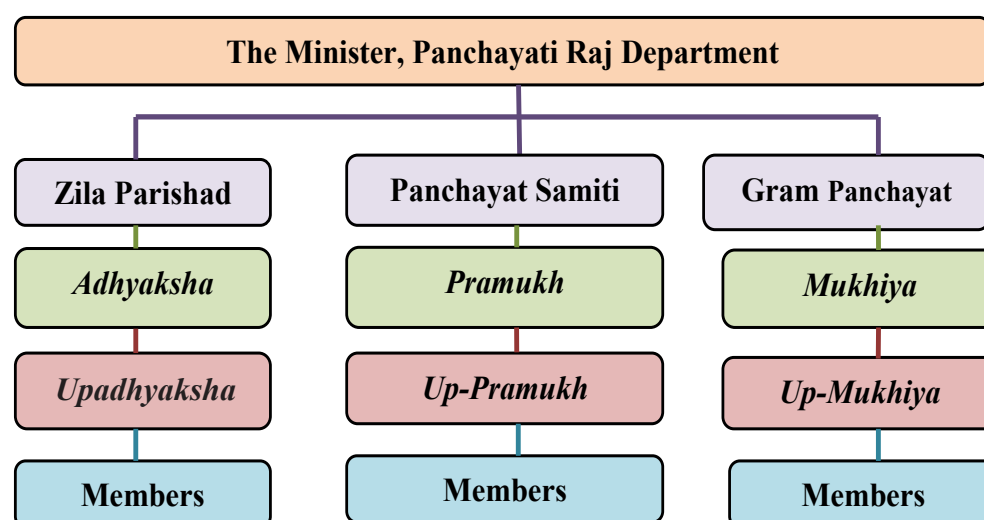
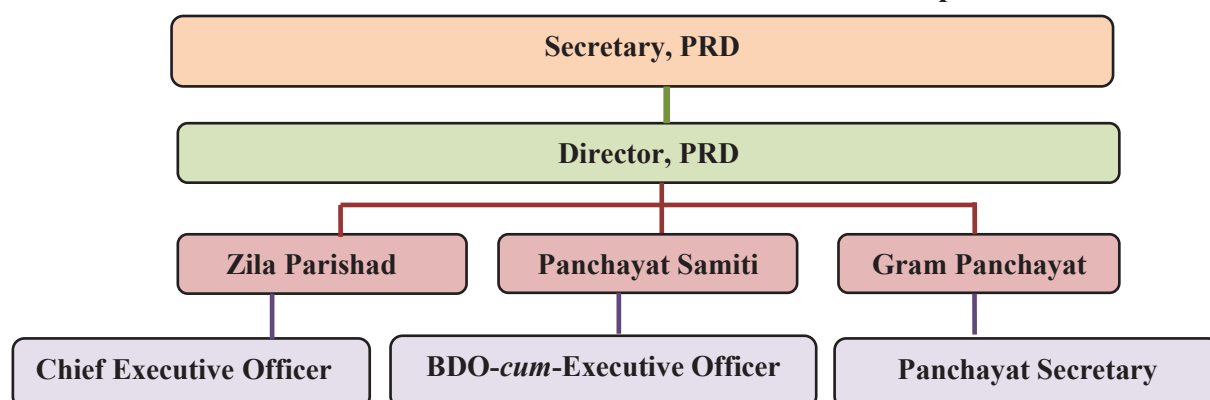


Chart – 1.2: Administrative Set-up



(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 to enable them to function as institutions of self-government:

- preparation of plans and implementation of schemes for economic development and social justice, as may be entrusted to them including those concerning 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, Sections 22, 47 and 73 of the BPRA, 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 BPRA, 2006, entrusts the State Government with the following significant powers to enable it to monitor the proper functioning of the PRIs. A summary of powers and roles of the State Government, in regard to PRIs, is given in **Table- 1.2** below:

**Table - 1.2: Powers of the State Government**

Authority	Powers of the State Government
<b>Section 11</b>	Subject to the general or special orders of the Government, the District Magistrate may, by notification in the District Gazette, declare any local area comprising a village or a group of contiguous villages or part thereof, to be a Gram Panchayat area, with a population within its territory as nearly as seven thousand.
<b>Section 146</b>	<b>Power to frame rules:</b> The State Government may, by notification in Official Gazette, make rules to carry out functions as specified in BPRA, 2006, subject to approval by the State Legislature.

Authority	Powers of the State Government
<b>Sections 150, 152 and 153</b>	<b>Power to make model Regulations, Inquiry, and Inspection:</b> 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.
<b>Section 167</b>	<b>District Planning Committee:</b> 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.
<b>Section 168</b>	<b>Finance Commission for Panchayats:</b> 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.
<b>Sections 27, 55 and 82</b>	<b>Taxation:</b> The PRIs may impose taxes on holdings, professions, and levy tolls, fees, and rates, subject to the maximum rates notified by the State Government.
<b>Section 172</b>	<b>Removal of difficulties:</b> 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.
<b>Sections 18(5), 44(4), and 70(5)</b>	<b>Removal from the post:</b> The State Government may remove <i>Mukhiya/Up-Mukhiya, Pramukh/Up-Pramukh, and Adhyaksha/Upadhayksha</i> , from their posts, on the ground of absence from the meeting, lack in performing duties as per BPR, 2006, misusing their powers and being convicted and absconding 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 functions as listed in the 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**

Eighteen Departments of the GoB transferred their respective functions (September 2001) to PRIs, in the light of subjects/functions enlisted in the Eleventh Schedule of the Constitution and prepared tier-wise activity mapping of functions/sub-functions. However, provisions regarding the devolution of functions and responsibilities, to be performed by the three tiers of Panchayats, were not made clear and practical. The Chief Secretary, Bihar directed (July 2014) Departments to frame clear Operational guidelines for effective devolution of powers to PRIs. However, no progress was observed in this respect. The 5<sup>th</sup> SFC and 6<sup>th</sup> SFC had also observed that, though the activity mapping orders were

issued by the Departments, they were not acted upon and, therefore, activity mapping was not effective. It was also observed that the functional Departments concerned had continued to receive budgetary allocations in respect of the transferred functions and the functions devolved to PRIs overlapped with those of the departments.

On this being pointed out by Audit, the Joint Secretary, PRD, replied (January 2020) that all 29 functions, mentioned in the Eleventh Schedule of the Constitution, had been devolved to the three tiers of PRIs, by the respective Departments of the GoB, 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 carried out, and even after a lapse of more than 28 years of the implementation of 73<sup>rd</sup> CAA, proper Operational guidelines for carrying out the devolved functions were not framed.

### ***Devolution of Funds***

The basic objective of the 73<sup>rd</sup> CAA was to empower the Local Bodies (LBs), through functional and financial devolution, to enable them to function as vibrant units of Self Government. PRIs received funds, in the form of grants/ devolution from the Central/ State Government, through PRD. Funds released to PRIs, during the financial years 2015-16 to 2019-20, are given in **Table-1.3** below:

**Table-1.3: Grants to PRI at different Levels (2015-16 to 2019-20)**

(₹ in Crore)

Head	GP	PS	ZP
Backward Region Grant Fund	0.00	0.00	2.27
<i>Rajiv Gandhi Panchayat Sashaktikaran Aabhiyan</i>	50.91	0.00	0.00
<i>Mukhya Mantri Saat Nishchay Yojna</i>	4360.38	0.00	0.00
Central Finance Commission	19026.64	28.29	14.14
State Finance Commission	5682.75	775.02	1860.95
<i>Panchayat Sarkar Bhawan</i>	564.14	NA*	NA*
Contingency Grant	135.55	NA*	NA*
Payment to PRIs' elected representative	519.46	117.52	23.53
<b>Total</b>	<b>30339.83</b>	<b>920.83</b>	<b>1900.89</b>

(Source: Economic Survey for the year 2019-20, GoB)

NA- Not Applicable

Further, as per Sections 27, 55, and 82 of BPR, 2006, PRIs were authorised to impose taxes on holdings, professions, and levy tolls, fees, and rates, subject to maximum rates specified by the State Government. The SFCs had also recommended that the State Government was to specify the maximum rates of taxes, to enable PRIs to raise resources on a priority basis. However, the rates, at which the tax/non-tax revenues were to be collected, were not specified by the GoB. Therefore, PRIs were not able to levy and collect revenues from their own resources, till August 2021. Increase of revenue from the internal resources of



PRIs was one of the mandatory conditions imposed by the Fourteenth Finance Commission (14<sup>th</sup> FC), for receiving the Performance Grants. As PRIs could not raise revenue from their internal resources, they could not receive Performance Grants for the period 2016-20.

On this being pointed out in Audit, the Department stated (August 2021) that framing of the Bihar Panchayat (Gram Panchayat, Audit, Budget and Taxation) Rules, was under process. Audit observed that the GoB could not frame the rules, even after a lapse of 15 years of enactment of the BPRA, 2006.

Thus, due to apathy of the GoB, PRIs could not raise revenues from their own resources and remained primarily dependent upon government grants, for carrying out their mandated functions.

### ***Devolution of Functionaries***

The 5<sup>th</sup> SFC, while observing acute shortage of staff at all levels of PRIs, recommended a model Panchayat cadre staffing pattern norms for PRIs, which provided seven posts<sup>5</sup> for each GP and PS and 20 to 29 posts for ZP. However, the model staffing pattern norms were implemented only partially in PRIs. For four to five GPs, one post of Accountant-cum-IT Assistant and one post of Technical Assistant was created (July 2018). Further, all posts were not filled in and, against the sanctioned post of 2,096 posts (for each of the aforesaid cadres), 1,683 Accountant –cum- IT Assistants and 1,535 Technical Assistants had been appointed, till August 2021 on contractual basis.

Further, at the GP level, the Panchayat Secretary was the only full-time government employee, to facilitate the GP in performing its mandated functions. However, 6,055 posts (72 *per cent* of the total sanctioned strength of 8419 posts) of Panchayat Secretary were vacant, as of August 2021. However, no post was sanctioned for Panchayat Samiti, the status of sanctioned strength and persons-in-position of ZPs was not available at the Department level.

The PRD replied that the recruitment process for filling the vacant posts of Panchayat Secretaries, through the Bihar Staff Selection Commission, was under process. However, Audit observed that proposals had been made by the department, on 21.02.2013, 22.09.2016 and 30.12.2016, to the Bihar Staff Selection Commission (BSSC), for a total number of 4,751 posts, with the examination having been held in December 2018, but the appointment of Panchayat Secretaries continues to be under process, since the last seven years.

It is evident from above that PRIs were not being provided with adequate staff and were therefore, functioning with deficient manpower. The 6<sup>th</sup> SFC also observed that Departments had issued activity mapping orders regarding devolution of functions but did not transfer services of functionaries handling those activities to PRIs and *Aaganwadi* workers, health workers, and teachers appointed by the PRIs did not report to them.

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<sup>5</sup> 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 contract/outsourced.

Thus, the devolution of functions, funds and functionaries to PRIs, as envisaged in the 73<sup>rd</sup> CAA, was not satisfactory. Further, Bihar was among the weak performing States in the country, in regard to the devolution of funds, functions and functionaries and stood second from the bottom (25<sup>th</sup> rank) in the devolution index across States.

#### 1.4 Formation of various Committees

The BPRA, 2006, provides that PRIs shall constitute various Committees, by election from among their members, for effective discharge of their functions.

##### 1.4.1 Standing Committees

As per Sections 25, 50, and 77 of BPRA, 2006, PRIs shall constitute various Standing Committees for the performance of their assigned functions. Standing Committees, to be constituted at three-tier PRIs, are given in **Table 1.4** below:

**Table - 1.4: 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 BPRA, 2006)

The Department had no information about how many PRIs had constituted the above mentioned Committees and how many Committees were actually functional. 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 BPRA, 2006, in all tiers of PRIs.

The Department replied (January 2021) that District Panchayat Raj Officers had been instructed to send reports regarding the constitution and functioning of various committees in PRIs, but no response had been received till August 2021.

##### 1.4.2 District Planning Committee

Article 243ZD of the Constitution and Section 167 of the BPRA, 2006, envisages the formation of a District Planning Committee (DPC), for consolidation of the plans prepared by the PRIs and ULBs of the district and finalization of a Draft Development Plan (DDP) for the District, as a whole. 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 the DPC. Further, the Chairperson of the DPC was to forward the development plan, as recommended by the DPC, to the State Government.

Though DPCs were re-constituted in February 2018, in all districts of the State, the Department did not receive any District plans and, hence, was not aware of the status of functioning of the DPCs in the districts. It was also observed that though Panchayat elections were held in May 2016, DPCs were re-constituted, with delays, in February 2018.

### **1.4.3 Gram Panchayat Development Plan**

The 14<sup>th</sup> FC recommended the creation of convergent plans at the level of Panchayats, as also leadership by Panchayats in providing basic amenities and services to the people. The Ministry of Panchayati Raj (MoPR), GoI, directed States to develop State-specific guidelines for Gram Panchayat Development Plans (GPDPs), which would converge all the resources over which the Panchayats had command, including 14<sup>th</sup> FC funds, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) funds, *Swachh Bharat* funds, etc.

GPs were mandated for the preparation of GPDPs, for economic development and social justice, by utilization of the resources available to them. The GPDP planning process, had to be comprehensive and based on a participatory process involving full convergence with Schemes of all related Central Ministries/Line Departments, related to the 29 subjects listed in the Eleventh Schedule of the Constitution. The main elements/objectives of formulation of GPDPs, which also need to be captured in the GPDPs, were: (i) poverty reduction (ii) human development (iii) social development with special emphasis on SC/ST, persons with disabilities, women and vulnerable groups (iv) economic development (v) ecological development etc.

Details of GPDP prepared and approved by PRIs, are not made available, by the Department, to Audit. However, as per the Plan Plus Report at [gdpd.nic.in](http://gdpd.nic.in), out of 8,387 GPs in the State, only 7,563 GPs had uploaded the final GPDPs, till 30 January 2021.

## **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, by the Comptroller and Auditor General (CAG) of India or its authorised authority, and a copy of the report is to be forwarded to the respective PRIs, within a month from the date of completion of the audit.

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 (13<sup>th</sup> FC) and 14<sup>th</sup> FC had also recommended that the CAG must be entrusted with the Technical Guidance and Support (TGS) over the audit of all LBs at every tier/category and his Annual Technical Inspection Report (ATIR), as well as the 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 the 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, by the CAG, commenced from January 2017.

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

#### 1.5.1.1 Preparation of Annual Audit 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 LBs for the next financial year and forward it to the Accountant General (AG) (Audit), Bihar.

The DLFA prepared the AAP for the year 2019-20, with a delay of nine months<sup>6</sup>, while no plan was prepared for the year 2020-21. The DLFA stated (August 2021) that delays in the preparation of AAP were due to shortage of manpower, while, owing to the COVID-19 pandemic, the plan could not be prepared for the year 2020-21. The reply was not acceptable, as the plan for the year 2020-21 had to be prepared till September 2019 and, at that time, there was no COVID-19 case.

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

The DLFA had conducted audit of the accounts of only 1,498 PRIs, during the financial years 2014-15 to 2019-20. Further, out of the aforesaid 1,498 audited PRIs, IRs of only 407 units (27 per cent) had been issued. Details of the units audited by the DLFA and the status of IRs issued during FYs 2014-15 to 2019-20 (as of February 2020), have been given in **Table 1.5** and **Chart 1.3** below:

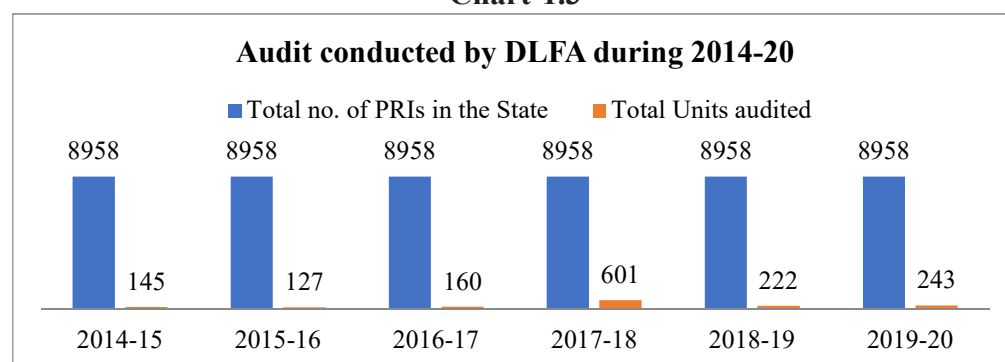
**Table-1.5: Details of year-wise units audited by DLFA**

Units	Total No. of units	Units Audited by the DLFA							IRs issued
		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total	
Zila Parishad	38	11	11	-	10	15	00	47	407
Panchayat Samiti	534	20	19	12	46	31	40	168	
Gram Panchayat	8,386	114	97	148	545	176	203	1,283	
<b>Total</b>	<b>8,958</b>	<b>145</b>	<b>127</b>	<b>160</b>	<b>601</b>	<b>222</b>	<b>243</b>	<b>1,498</b>	<b>407</b>

(Source: Information furnished by DLFA)

<sup>6</sup> AAP was to be prepared till September 2018 but it was prepared on 12 July 2019.

Chart-1.3



DLFA replied (February 2020) that, due to serious manpower constraints, audit coverage was very low. On the non-issuance of IRs, the DLFA furnished category-wise status of non-issued IRs and stated that the reports were in the vetting, comparison, examination, and typing stages and adequate infrastructural facilities (including accommodation) were not available.

#### 1.5.1.3 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 AG, to obtain necessary advice for system improvements. The AG was to review these IRs, 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.

Further, IRs of 10 per cent of the number of units audited, in respect of ZPs and Municipal Corporations and five per cent of the total number of units audited, in respect of other LBs, which were audited by DLFA, were to be forwarded by the DLFA, to the AG (Audit). However, the same had not been forwarded after August 2017. Letters were written to the DLFA and also to the Finance Department (controlling Department), to submit the IRs for TGS, but no IR was received till August 2021.

Thus, due to non-submission of required IRs by the DLFA, to the AG (Audit), the quality of IRs issued by the DLFA could not be monitored by the AG (Audit) and DLFA was remained deprived of TGS on IRs. This defeats the purpose of establishing a mechanism of Technical Guidance for the rural local bodies.

#### 1.5.1.4 Poor response to IRs issued by DLFA

The status of compliance of audit paragraphs contained in the IRs was not satisfactory as evident from a huge number (almost 100 per cent) of audit paragraphs that remained outstanding for settlement, as of 31 March 2020, as detailed in **Table 1.6** below:

**Table –1.6: Outstanding paragraphs in PRIs for the FYs 2014-15 to 2019-20**

Financial Year	No of IRs issued	No. of paras in IRs	The amount involved (₹ in lakh)	No of the paras settled	Amount of settlement (₹ in lakh)	No of Paras outstanding	The money value of paras outstanding (₹ in lakh)
2014-15 to 2019-20	407	2,354	9,845.61	2	0.13	2,352	9,845.48

(Source: Information furnished by DLFA)

It is evident from the table above that out of a total of 2,354 paragraphs contained in 407 IRs, only two paragraphs involving ₹ 0.13 lakh, were settled, while 2,352 paragraphs involving ₹ 98.45 crore, remained pending for settlement, as of August 2021. Thus, huge number of outstanding audit paragraphs indicated weak internal control in PRIs and inaction on the part of the authorities concerned, to ensure compliance of outstanding audit paragraphs.

#### **1.5.1.5 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 purposes. Accordingly, the office of the AG (Audit) prescribed three returns<sup>7</sup> and four registers<sup>8</sup>. However, the required returns and registers were not furnished by the DLFA. Subsequently, the AG (Audit) proposed (February 2018) submission of the Annual Return (Implementation of Annual Audit Plan, due on 15<sup>th</sup> April of each year, for the preceding year), Quarterly Return (Serious irregularities, due on 15<sup>th</sup> of the month following each quarter), Annual Progress Report of IRs/Paras (due on 15<sup>th</sup> April, for the preceding year), Half-yearly return (Consolidated Performance Report, due on 15<sup>th</sup> of the month, following each half-year). However, no return as prescribed, had been furnished by DLFA, till July 2021.

The DLFA replied (August 2021) that the returns and registers were not maintained and direction may be sought from the AG (Audit). The reply was not acceptable, as the DLFA did not consult the AG (Audit) to get necessary guidelines, even after a lapse of more than six years of its establishment.

#### **1.5.1.6 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 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 by audit, the DLFA stated (August 2021) that out of 1,551 PRIs units audited by DLFA during 2015-20, only 537 reports were issued (as of August 2021), and therefore, the same could not be reported to the AG (Audit). It was further stated that in these 537 units, cases (in 56 audit paras) of defalcation/probable defalcation/misappropriation of ₹ 1.01 crore, ₹ 80.35 lakh, and ₹ 4,000 relating to GPs, PSs, and ZPs respectively, were noticed. However, action taken on these audit findings was not pointed out to Audit by the DLFA.

#### **1.5.1.7 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.

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<sup>7</sup> (i) Quarterly assessment report, (ii) Consolidated performance report (A) (iii) Consolidated performance report (B).

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

On this issue, the DLFA replied (August 2021) that the steps were to be taken for internal control, were not clear. The reply was not acceptable, as the DLFA had to chalk out the strategy for sound internal control and non-establishment of a mechanism of internal control, resulted in deficient planning, less coverage of auditable units, non-issue of IRs within time, non-preparation of reports and returns etc.

#### **1.5.1.8 Training and Capacity building**

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

In this regard, the DLFA replied (August 2021) that auditors who had joined in 2016 and 2019 were imparted training for one month, at the Bihar Institute of Public Administration and Rural Development. Further, online training was also imparted, for one day, on conduct of online audit. The DLFA had not made any written request to the AG (Audit), for imparting training to the auditors of the Directorate of Local Fund Audit.

#### **1.5.1.9 Status of enlistment of the provision of TGS in BPR, 2006**

As per the recommendations of the clause 10.161(ii) of the 13<sup>th</sup> FC and clause 9.61 of the 14<sup>th</sup> FC, the GoB had entrusted (December 2015) TGS, to the audit of the accounts of LBs, to the CAG, which was accepted by the CAG in November 2016. Consequently, the role of the primary auditor was assigned to the DLFA, established under the Finance Department, GoB.

However, provision regarding entrustment of TGS to CAG for the audit of PRIs had still not been made in the BPR, 2006, by the GoB. The DLFA replied (August 2021) that revision in the BPR, 2006, in this regard was under process.

#### **1.5.1.10 Inadequate manpower with DLFA**

To ensure the efficient and effective functioning of the DLFA, sufficient Manpower of DLFA was required to be put in place. The sanctioned strength and persons-in-position, under different cadres of DLFA, as of August 2021, are shown in **Table-1.7** below:

**Table-1.7: Sanctioned strength and Persons-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	4	30
4	Audit Officer	45	16	29
5	Assistant Audit Officer	50	00	50
6	Senior Auditor	56	-	56
7	Auditor	125	#42	83
<b>Total</b>		<b>314</b>	<b>62</b>	<b>252</b>

(Source: Information received from DLFA)

# The total number of the regular auditor was 42 and besides, 10 auditors were on deputation, and 32 were working on a contractual basis.

It is evident from the table above that the DLFA had serious manpower constraints and only 62 audit personnel were working against the sanctioned strength of 314, as of August 2021. Due to the shortage of manpower, audit coverage was very poor as discussed in the preceding paragraph (Table-1.5).

## 1.6 Response to Audit Observations

### 1.6.1 Poor response to AG's Inspection Reports on LBs

After completion of the audit, IRs containing audit findings, were to be issued to the PRIs concerned, with a copy to the Department concerned. The DDC-cum-CEOs of the ZPs, the EOs of PSSs, and the *Mukhiyas* of GPs, were required to respond to audit observations contained in the IRs and send compliance reports within three months. But, the status of compliance of audit paragraphs was not satisfactory, as evident from the increasing number of paragraphs outstanding. Details of paragraphs outstanding for compliance, for the last five years (2015-20), are given in Table-1.8:

**Table - 1.8: Outstanding audit paragraphs for the last five financial years (2015-16 to 2019-20)**

Financial Year	No. of IRs	No. of Paragraph 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)
2015-16	1,454	18,586	337.096	6,314	9.56	12,272	327.536
2016-17	1,301	10,873	501.369	68	5.824	10,805	495.545
2017-18	1,365	8,476	1,173.853	20	1.183	8,456	1,172.67
2018-19	156	1,069	72.88	0	0	1,069	72.88
2019-20	113	874	222.57	5	8.01	869	214.56
<b>Total</b>	<b>4,389</b>	<b>39,878</b>	<b>2,307.768</b>	<b>6,407</b>	<b>24.577</b>	<b>33,471</b>	<b>2,283.191</b>

(Source: Inspection Reports)

It is evident from the Table that, out of the total 39,878 paragraphs contained in 4,389 IRs, only 6,407 paragraphs (16 per cent) were settled, while 33,471 paragraphs, involving an amount of ₹ 2,283.19 crore, remained outstanding, as of March 2021.

Further, Audit observed that six IRs, relating to the PRD, for the period 2013-14 to 2019-20, containing 119 audit paragraphs, were issued (March 2017 to March 2021) to PRD for compliance, but, no audit paragraph was settled till July 2021.

The large number of outstanding paragraphs indicated a lack of internal control and inaction on the part of the authorities of PRIs and the Department, in furnishing compliance to audit observations.

### 1.6.2 Compliance/status of Annual Audit Reports

In the State, the report of the Examiner of Local Accounts (ELA) was prepared for the financial years 2005-06 to 2013-14. Therefore, CAG's Audit Reports on LBs, for the financial years 2014-15 and 2015-16, were prepared.



### **1.6.3 ELA's Annual Reports**

The Finance Department, GoB, had constituted (March 2010) three-tier Committees – High Level, Department Level, and District Level- for review/ compliance of the audit paragraphs contained in the ELA's Annual Audit Reports. The District Level Committee<sup>9</sup> had the responsibility of ensuring compliance of audit paragraphs/ reports received from the PRIs and ULBs of that district. The Department Level Committee<sup>10</sup> was expected to review the compliance of audit paragraphs/ reports made by the District Level Committees. The High-Level Committee<sup>11</sup> was to meet once in six months, to review the functioning of the District and Department Level Committees.

Audit observed that 84 District Level Committee meetings were proposed for the year 2019-20, but no meeting was held. Further, the Department Level Committee meeting had not been held since July 2015 and the High-Level Committee meeting had not been held since August 2013.

Thus, the purpose of constituting three-tier Committees was not fulfilled. The ELA's Annual Audit Reports on LBs, for the year ended March 2013 and March 2014, were placed before the State Legislature, in March 2016.

### **1.6.4 Placement of CAG's Audit Report before the State Legislature**

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.

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.

Further, the CAG Report on LBs, GoB, for the period 2015-16, was laid before the State Legislature on 23 August 2017.

## **Accountability Mechanism and the Financial Reporting Issues**

### **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 the State Government was to frame service conditions, duties, and powers, etc. of the *Lok Prahari*.

However, the Draft Bihar Local Government Ombudsman Rules, 2011, for the appointment of *Lok Prahari* (Ombudsman) for Panchayats, are not finalized till January 2021. The process for appointment of the Ombudsman had been in progress. Consequently, the *Lok Prahari* (Ombudsman) for PRIs could not be appointed by PRD.

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<sup>9</sup> Headed by the District Magistrate/Deputy Development Commissioner

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

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

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

### 1.7.2 Social Audit

Rule 2 (A) of the 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 the 5<sup>th</sup> SFC recommended 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 social projects, laws, and policies.

The GoB had created (June 2015) various posts, on contractual basis, for the functioning of the Social Audit Society (SAS) and constituted the SAS in April 2017. But, no appointment was made on key posts and the SAS was functioning with deficient manpower, as per the details given in **Table-1.9** below:

**Table-1.9: Sanctioned strength and Persons-in-position to facilitate social audit**

Sl. No.	Posts	Sanction Strength	Persons-in-position
1	Director	1	0 <sup>#</sup>
2	Social Audit Advisor	1	0 <sup>#</sup>
3	State Resource Person	5	1
4	District Resource Person (DRP)	62	31
5	Block Resource Person (BRP)	534	0
6	Accountant	5	0
7	Office Assistant	3	0
	<b>Total</b>	<b>611</b>	<b>32</b>

(Source: Information obtained from SAS, GoB) # The officers of the RDD held an additional charge.

The Rural Development Department (RDD), GoB, had decided to fill in the vacant posts at the State and District levels and an advertisement was published (December 2020) for the hiring of a recruiting agency, but was later cancelled and the posts remained vacant till August 2021.

The Joint Secretary, PRD, had stated (January 2020) that there was no separate mechanism for social audit in PRIs, for schemes other than MGNREGS. Accordingly, the Department had requested (July 2018) the Rural Development Department to conduct the social audit of the schemes conducted by the PRD with the help of the Social Audit Society and the Nalanda district was selected (January 2020) for the pilot study. The pilot study was, however, not conducted.

Further, the SAS was assigned the social audit work of MGNREGS in PRIs and *Pradhan Mantri Awaas Yojana, Lohiya Swachh Bihar Abhiyan*, Public Distribution System, *Nir Nirmal* Project, and National Social Assistance Programme (implemented by Blocks and Districts), but only five *per cent* of the sanctioned posts for SAS were filled in and the SAS was functioning with serious manpower constraints.

Thus, social audit of schemes, other than MGNREGS, in PRIs, was not conducted till August 2021.

### 1.7.3 Submission of Utilisation Certificates

As per the instruction of GoB, read with provisions contained in Section 342 of the Bihar Financial Rules (BFR), the time limit for submission of Utilisation Certificates (UCs), for grants sanctioned for specific purposes, is 18 months from the date of allotment of the grants.

Audit observed that the PRD had released grants of ₹ 39,788.16 crore, to PRIs, during the financial years 2007-08 to 2018-19 (till October 2020), under different heads, but, the UCs for only ₹16,285.93 crore (41 per cent) were submitted by the PRIs, as of January 2021, vide summary given in **Table 1.10** below:

**Table – 1.10: Submission of UCs by PRIs for funds allotted till FY 2018-19.**

(₹ in crore)

Sl. No.	Head	Total Allotment till FY 2018-19	UCs submitted till Oct 2020	Percentage of UCs submitted
1.	RGPSA	42.45	22.95	54.06
2.	IAP	175.00	75.00	42.86
3.	BRGF	4,045.92	3,843.29	95.00
4.	12 <sup>th</sup> FC	1,625.12	1,055.11	64.92
5.	13 <sup>th</sup> FC	4,978.56	4,747.25	95.35
6.	14 <sup>th</sup> FC	13,249.48	3,072.44	23.19
7.	3 <sup>rd</sup> SFC	85.52	60.02	70.18
8.	4 <sup>th</sup> SFC	2,118.61	1,812.22	85.54
9.	5 <sup>th</sup> SFC	7,182.92	346.03	4.82
10.	Mukhyamantri Gramodaya Karyakram	267.70	229.22	85.63
11.	Pratinidhi Bhatta	1,841.08	580.23	31.52
12.	Gram Kachahari Nyaymitra/Sachiv ke Mandey & Kiraya, Upaskar	687.19	292.80	42.61
13.	MMNY (Peyjal)	1,882.00	13.85	0.74
14.	MMNY (Gali-Nali)	1,210.00	23.38	1.93
15.	MMNY (Administrative Expenditure)	48.10	0.58	1.21
16.	Gram Panchayat Upaskar	154.59	5.89	3.81
17.	Vaivevik Anudan	0.15	0.15	100.00
18.	Gram Swaraj Society	189.21	105.52	55.57
19.	Data Entry Operator Karyapalak Sahayak ka Mandey	4.56	0.00	0.00
<b>Total</b>		<b>39,788.16</b>	<b>16,285.93</b>	

(Source: Information provided by the PRD, GoB)

Note: Utilisation for funds under the RSVY scheme (subsumed in BRGF), amounting to ₹ 59.49 crore, was not submitted by 16 districts of the State.

On this being pointed out in audit, the PRD stated (January 2021) that the amounts released by PRD, under various heads, were utilised by a huge number

of implementing units and the utilisation was to be submitted after the audit of the accounts by CAs and that this was the reason for the delay in receiving the UCs.

#### 1.7.4 Non-release of RGPSA/RGSA grant

The MoPR, GoI, had implemented the *Rajiv Gandhi Panchayat Sashaktikaran Abhiyaan* (RGPSA), during the financial years 2012-13 to 2015-16, for strengthening of the Panchayati Raj System across the country and addressing the critical gaps constraining the functioning of Panchayats. Further, GoI had launched the restructured Centrally Sponsored Scheme of *Rashtriya Gram Swaraj Abhiyan* (RGSA), for the period April 2018 to March 2022, with the primary aim of strengthening PRIs for achieving Sustainable Development Goals, with the main thrust being on convergence with Mission *Antyodaya* and also to emphasize strengthening of the PRIs.

The sharing of funds for the Schemes, between the Centre and State, was in the ratio of 75:25 (for RGPSA) and 60:40 (for RGSA). Funds for the aforesaid Schemes were to be provided in two equal instalments, by the GoI. In the first instalment, 50 per cent of the central share, approved as per the approved annual plan, was to be released after adjusting the unspent balance of the Schemes out of the previous year's release lying with the State, while the second instalment (i.e. remaining 50 per cent) was to be released after incurring an expenditure of 60 per cent of the total available funds, subject to regular reporting of progress in implementation of the Schemes.

GoI sanctioned ₹ 814.40 crore for RGPSA/RGSA during the financial years 2013-14 to 2020-21, in which ₹ 520.94 crore was the central share. However, GoI released only the first instalment of central share of ₹ 76.53 crore, after adjustment of the unspent balance lying with the State during the financial years 2013-14 to 2014-15 and 2018-19 to 2020-21, as detailed in Table 1.11 below:

**Table: 1.11: Status of receipt of Central share for RGPSA/RGSA during the FYs 2013-14 to 2020-21**

(₹ in crore)

Name of scheme	Financial Year	Sanctioned amount	Central Share	State Share	Central Share released	Adjustment done by the GoI	Non-release of central share
RGPSA	2013-14	22.98	17.24	5.74	8.61	Nil	8.63
	2014-15	192.31	144.23	48.08	63.67	8.45	80.56
RGSA	2018-19	367.10	220.26	146.84	4.25	54.26	216.01
	2019-20	126.30	75.78	50.52	0.00	Nil	75.78
	2020-21	105.71	63.43	42.28	0.00	Nil	63.43
<b>Total</b>		<b>814.40</b>	<b>520.94</b>	<b>293.46</b>	<b>76.53</b>	<b>62.71</b>	<b>444.41</b>

(Source: Allotment files and UCs)

The State Government had to furnish the Monthly Progress Reports (MPR) of activities and expenditure incurred on implementation of the Schemes, as per the approved plan, UCs and Audited Statements of Accounts, year wise, for funds released under the programme, along with outcomes indicating component-

wise utilization, as per the funding norms, both under the Central and State shares, for release of the 2<sup>nd</sup> instalment of Central share for the Schemes.

Audit observed the following deficiencies in the implementation of the Schemes:

- GoB did not furnish the MPR and Audited Statements of Accounts, for release of the 2<sup>nd</sup> instalments and, thereby, did not comply with the conditions imposed by the GoI.
- The first time, a financial year wise Expenditure Report of RGPSA & RGSA for the financial years 2013-14 to 2020-21 (up to November 2020), was prepared by Chartered Accountants, in December 2020, after six years of receipt of funds, and, on that basis, UCs of ₹ 53.72 crore<sup>12</sup> were prepared by the Department and sent to MoPR, in December 2020. However, the Department replied (February 2021) that expenditure of the balance amount to ₹ 22.81 crore was under process and reminders for utilising the balance amount was issued to the units concerned.
- Against the due State share of ₹ 26.92 crore, in respect of the central share released by GoI, during the period 2013-15 and 2018-19, the GoB released ₹ 24.56 crore only, till 2021 (2014-20- ₹ 1.34 crore and 2020-21- ₹ 23.22 crore).

A total sum of ₹ 6.54 lakh was released by the GoI, during the financial years 2015-16 to 2018-19, for capacity building and training of elected representatives, Panchayat functionaries, and other stakeholders under “Capacity Building – Panchayat Sashktikaran Abhiyan” but the said amounts were not accounted for in the Scheme accounts and credit of the amounts was not traceable.

Thus, due to non-fulfilment of conditions for sanctioning of grants, non-utilisation of available funds, and non-submission of UCs in time, GoI, could not release ₹ 444.41 crore to the State and the State was deprived of grants to that extent. The Department did not furnish a reply to the audit observations.

#### **1.7.5 Internal Audit and Internal Control System of PRIs**

As per the recommendation of the 5<sup>th</sup> SFC for sustainable improvements, qualified Accountants were to be appointed regularly, apart from contracting CAs as internal Auditors, as an interim measure. Further, the Finance Department, GoB, in the light of 14<sup>th</sup> FC recommendations, made it mandatory (February 2016) for LBs to submit the expenditure accounts and internal audit report, along with UCs of the previous year’s grants, for release of the 2<sup>nd</sup> and subsequent instalments. This necessitated the setting up of an internal audit mechanism in the department.

The PRD issued tender for empanelment of CA firms to conduct an audit of the accounts of PRIs, for the period 2016-18, and audit of the previous year was to be completed till September next year. However, audit was not completed on time and the delays, in this regard, ranged from one to four years. Further,

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<sup>12</sup> Final Utilization for ₹ 31.23 crore and Provisional UCs for ₹ 22.49 crore.

the PRD invited tender (June 2020) for selection of CA firms for internal audit of PRIs and *Gram Kachahari*, for the period 2019-20 to 2021-22, and audit of 2019-20 was to be completed till September 2020. Audit observed that audit of all units had not been completed. The status of the internal audit, conducted by the CAs, in PRIs and *Gram Kachahari*, during FYs 2017-18 to 2019-20, as of August 2021, is given in **Table-1.12** below:

**Table-1.12: Status of Internal Audit by Chartered Accountants**

Financial Year	Total No. of GPs	No. of GPs audited	Total No. of Gram Kachahari	No. of Gram Kachahari audited	Total No. of PS	No. of PS audited	Total No. of ZPs	No. of ZPs audited
2017-18	8,391	8,164	8,391	8,132	534	509	38	38
2018-19	8,387	8,128	8,387	7,405	534	465	38	35
2019-20	8,387	2,507	8,387	1,860	534	149	38	10

(Source: - Annual report of the Department and information furnished by the Department)

The Department instructed (January 2020) all the District Magistrates to complete the audit of the accounts of the PRIs and *Gram Kachahari*, up to the period 2018-19, by January 2020. However, the audit for the years 2017-18 and 2018-19, was not completed, as of August 2021, as evident from the table above.

Action taken against CA firms for non-completion of audit within the stipulated timelines was not provided. The CA firms, however, submitted a memorandum to the Department, stating that all necessary accounts, bank pass-books, scheme register, etc. were neither maintained, nor produced by PRIs, for audit.

Further, a State Level Audit and Financial Management Consultant was to be appointed for review of the work of the CA, supervision, compilation of reports received from the district at State level, compliance of objections, and other audit-related work of the Department level. However, **the Department failed to appoint the Consultant**. As such, review of work of the CA, supervision, compilation of reports received from the district at the State level, compliance of objections, and other audit-related work, could not be ensured.

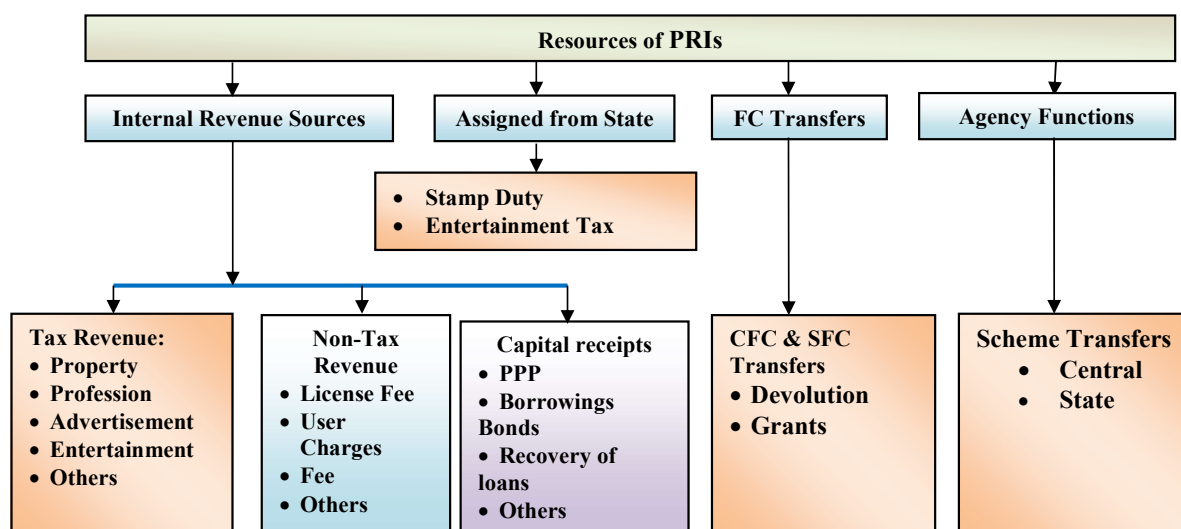
## 1.8 Financial Reporting Issues

### 1.8.1 Sources of Funds

The resource base of PRIs comprised of own revenue, generated by the collection of tax and non-tax revenues; devolution of funds, as per recommendations of State and Central Finance Commissions; Central and State Government grants for maintenance and development purposes; and other receipts.

As per Sections 27, 55, and 82 of BPR, 2006, PRIs were authorised to impose taxes on holdings, professions, and levy tolls, fees, and rates, subject to a maximum rate, as notified by the State Government. A flow chart of the sources of finances of PRIs, is depicted in **Chart 1.4** below:

Chart – 1.4: Source of Finances



(Source: Provisions in the BPR, 2006 and the 5<sup>th</sup> State Finance Commission Report)

Out of the three-levels of PRIs, only the ZPs had their own sources 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, framing of the Bihar Panchayat (Gram Panchayat, Audit, Budget and Taxation) Rules, was under process at the State level.

#### 1.8.1.1 State Budget allocation vis-à-vis expenditure

The budget provisions of the State Government, to PRD, including the State share towards GoI schemes and grants received under recommendations by Central Finance Commissions (CFCs), for the financial years 2015-16 to 2019-20 are given in **Table 1.13** below:

**Table-1.13: Budget allocation vis-à-vis expenditure**

(₹ in crore)

Particulars	Head	2015-16	2016-17	2017-18	2018-19	2019-20	Total
1	2	3	4	5	6	7	8 (3 to 7)
1. Budgetary Allocation	Revenue	5,465.11	7,386.33	9,148.71	10,245.17	13,376.35	45,621.67
	Capital	2.00	0.00	0.01	1.00	250.00	253.01
	<b>Total</b>	<b>5,467.11</b>	<b>7,386.33</b>	<b>9,148.72</b>	<b>10,246.17</b>	<b>13,626.35</b>	<b>45,874.68</b>
2. Expenditure	Revenue	2,893.01	6,466.66	8,540.95	8,408.50	8,689.62	34,998.74
	Capital	0.00	0.00	0.00	0.00	45.12	45.12
	<b>Total</b>	<b>2,893.01</b>	<b>6,466.66</b>	<b>8,540.95</b>	<b>8,408.50</b>	<b>8,734.74</b>	<b>35,043.86</b>
3. Savings (1-2)		2,574.10	919.67	607.77	1,837.67	4,891.61	10,830.82
4. Percentage of savings		47	12	7	18	36	24

(Source: Appropriation Accounts, GoB for the year 2015-16 to 2019-20)

It is evident from **Table 1.13** above that the PRD could not fully utilise budgetary allocation and the percentage of savings ranged between seven *per cent* and forty-seven *per cent* during the financial years 2015-16 to 2019-20. Further, the total expenditure under the Capital head was only 18 *per cent* of the total allocation under the head.

### 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 Commissions,<sup>13</sup> to assess the financial status and to determine the principles based on which adequate financial resources would be ensured to the LBs. Recommendations made by the 5<sup>th</sup> SFC and the status of their implementation, are discussed in para 2.1 of the report.

The 6<sup>th</sup> SFC was constituted in February 2019, for the period 2020-25, and its report was due on 31 March 2020. However, the 6<sup>th</sup> SFC submitted its report in two parts. An interim report, for the period 2020-21, was submitted by the Commission, on 8 January 2020, while the final report, for the period 2021-25, was submitted in April 2021, and was accepted by the GoB in August 2021. As per the recommendations of the 6<sup>th</sup> SFC, total funds of ₹ 19,419.40 crore<sup>14</sup> were to be devolved to PRIs, during 2021-25, as per details given in **Table-1.14** below:

**Table-1.14 Grants and devolution (projected) for release to LBs**

(₹ in crore)

Particulars	Projected				
	2021-22	2022-23	2023-24	2024-25	2021-25
Devolution	1,428.05	1,725.10	2,051.40	2,408.90	7,613.45
Grant	2,477.15	2,834.00	3,072.55	3,422.25	11,805.95
<b>Total SFC Transfer</b>	<b>3,905.20</b>	<b>4,559.10</b>	<b>5,123.95</b>	<b>5,831.15</b>	<b>19,419.40</b>

(Source: Report of 6<sup>th</sup> SFC)

Further, as per recommendation in the interim report for the period 2020-21, funds were to be transferred to the LBs, as per the recommendations of the 5<sup>th</sup> SFC.

### 1.8.3 Recommendations of the 14<sup>th</sup> 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 resources of Panchayats and Municipalities.

#### **Fourteenth Finance Commission**

The Fourteenth Finance Commission was constituted in January 2013, to make recommendations on specified aspects of Centre-State fiscal relations, for the award period 2015-20. It submitted its report on 15 December 2014. The 14<sup>th</sup> FC had recommended the assured transfer of funds to LBs for delivery of basic services<sup>15</sup> only. In the light of the 14<sup>th</sup> FC recommendations, the grants were to be disbursed to LBs using the formulae recommended by the respective SFCs for the distribution of resources.

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

<sup>14</sup> Devolution - ₹ 7,613.45 crore and grants - ₹ 11,805.40 crore

<sup>15</sup> Water supply, sanitation including septic management, sewage, storm water, drainage, street lighting, LB roads and footpaths, parks, etc.



The 14<sup>th</sup> FC had recommended Grants-in-Aid to duly constituted GPs, in two parts viz. (i) Basic Grant (BG) and (ii) Performance Grant (PG). The Basic grant was to be provided to LBs for supporting and strengthening the delivery of basic services, whereas the Performance grant was designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement of 'own revenue'. The 14<sup>th</sup> FC had prescribed two eligibility conditions<sup>16</sup> for GPs to become eligible for PG. Further, GoI had prescribed (September 2017) two additional eligibility criteria<sup>17</sup> for the GPs to receive PG. The ratio of BG to PG is 90:10, in regard to GPs. The details of grants released by GoI, under the 14<sup>th</sup> FC, and subsequently released by GoB, to GPs, during the financial years 2015-16 to 2019-20, are given in **Table- 1.15** below:

**Table-1.15: Grants recommended and released**

(₹ in crore)

Financial 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	2,269.18	2,269.18	2,269.18	0.00	0.00	0.00
2016-17	3,142.08	3,142.08	3,142.08	412.15	0.00	0.00
2017-18	3,630.39	3,630.39	3,630.39	466.41	0.00	0.00
2018-19	4,199.71	4,199.71	4,199.71	529.67	0.00	0.00
2019-20	5,674.70	5,674.70	5,674.70	693.55	0.00	0.00
<b>Total</b>	<b>18,916.06</b>	<b>18,916.06</b>	<b>18,916.06</b>	<b>2,101.78</b>	<b>0.00</b>	<b>0.00</b>

(Source: 14<sup>th</sup> FC report, grant sanctioning and allotment letters and UCs of PRD, GoB)

GoB could not receive PG of ₹ 2,101.78 crore for the period 2016-20, as the mandatory conditions, viz., availability of audited accounts and improvement in own sources of revenue, were not fulfilled by the State.

The PRD stated (January 2021) that the Department had requested the GoI to release Performance Grants, as the State had taken steps for audit of the accounts of PRIs and issued instructions to PRIs, to increase their own sources of revenue. The reply was not acceptable, as the audit of accounts of PRIs was not completed in respect of all units and framing of regulations for taxation, to enable PRIs to levy and collect taxes and non-tax revenue, was under process till the end of the 14<sup>th</sup> FC award period (March 2020). Thus, the GoB failed to fulfil mandatory conditions to become eligible for getting Performance Grants, which resulted in deprivation of the State from the grants.

- **Delay in release of grants:** As per the 14<sup>th</sup> FC recommendations, the State should release the grants to LBs within 15 days of it being credited to their/ its account by GoI, failing which the State would be liable to pay penal interest to LBs at the RBI bank rate, from its funds. Audit observed that

<sup>16</sup> LBs will have to submit audited annual accounts that related to a year not earlier than two years preceding the year in which the LBs sought to claim the PG. Further, they would have to show an increase in their revenues over the preceding year, as reflected in the audited accounts. Further, the municipalities were to measure and publish the Service Level Benchmarks (SLBs), relating to basic urban services, each year.

<sup>17</sup> (i) Uploading of GPDP on the Plan Plus portal of MoPR and (ii) uploading of sector-wise expenditure on the MoPR website.

the instalments for the financial years 2018-19 to 2019-20 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-1.16** below:

**Table- 1.16: Delay in the release of grants**

(₹ in crore)

Financial Year	Particulars of 14 <sup>th</sup> FC grants	Date of receipt by the Department	Date of release to GPs	Delay in release of grants (in days)	Amount released with delays	Penal interest at RBI rate
2018-19	1 <sup>st</sup> instalment	6 September 2018	3 October 2018- 18 February 2020	12-515	2,099.79	13.58
	2 <sup>nd</sup> Instalment	9 January 2019	8 February 2019-18 February 2020	16-391	2,099.63	16.18
2019-20	1 <sup>st</sup> Instalment	3 September 2019	13 September 2019 – 24 April 2020	34-219	54.01	0.85
	2 <sup>nd</sup> instalment	25 October 2019	6 November 2019- 24 April 2020	4-167	2,291.08	2.00
<b>Total</b>						<b>32.61</b>

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

On this being pointed out by Audit, the Joint Secretary, 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 the State level, but due to discrepancies in the bank accounts of GPs and technical faults in PFMS, the amount of grants was released with delay. The reply of the Department was not acceptable, as the Department had to ensure the 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 2<sup>nd</sup> instalment of 2018-19 and the 1<sup>st</sup> and 2<sup>nd</sup> instalments of 2019-20, had not been transferred to GP, Nari (PS Goura Bouram under Darbhanga District), till February 2020. However, PRD had submitted UCs for the period 2018-20 to MoPR, GoI, certifying that the money had been electronically transferred to LBs 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.

• **Non-Deposit of the interest earned into the Consolidated Fund of India**

Rule 230(8) of the General Financial Rules, 2017, issued by the Department of Expenditure, Ministry of Finance, provides that if any organisation is given a grant in aid or advance, the interest earned is to be deposited in the Consolidated Fund of India, immediately after finalising of the accounts. During the audit of the Department, it was noticed that the State could not release 14<sup>th</sup> FC grants, for the period 2015-20, to GPs, within the stipulated period of 15 days from the date of receipt of the same from the GoI. Instead, the funds were parked in the Department's bank account<sup>18</sup> in the designated bank.

Due to parking of the funds in the bank, the Department earned bank interest of ₹ 32.37 crore till December 2020, and the same was deposited (December 2019 to December 2020) into the Consolidated Fund of the State instead, of being deposited into the GoI account. The Department did not reply on the issue.

<sup>18</sup> HDFC Bank Account No. 50100188126888

### 1.8.4 Maintenance of Records

#### *Non-maintenance of Cash-Books and reconciliation of accounts*

PRD received allotment under 24 heads of grants/funds. However, cash books of only eight heads<sup>19</sup> were maintained by the Department. No cash book, regarding the allotment of ₹ 63.67 crore, received for RGPSA, was maintained by the Department. It was stated by the Department that the cash book was maintained for only those heads for which amounts were drawn at the Department level. The Department did not furnish any reply regarding the maintenance and production of other cash books related to the remaining 16 heads. (*Appendix-1.1*)

Further, scrutiny of the records of PRD revealed that reconciliation statements were not prepared by the PRD and there was a difference of ₹ 32.82 crore<sup>20</sup>, between the cash books and the bank accounts, as of 31 March 2020.

The Deputy Secretary, PRD, stated (August 2021) that the list of the Panchayats and bank accounts of beneficiaries, with advice, had been made available to the bank. However, many Gram Panchayats did not provide the correct details of their bank accounts. Due to this, the amounts were not credited to such incorrect accounts of the Gram Panchayats and these amounts were lying in the Department's account. Hence, there was a difference between the cash book and bank accounts, at the end of the year. The total number of Gram Panchayats in Bihar was 8,387 and, it was difficult to trace the Gram Panchayats for whom the amounts had not been credited to their bank accounts. For this purpose, the name of those Gram Panchayats are traced, by the department, from time to time, in coordination with the bank and, sometimes, it was also being inquired from the Gram Panchayats and districts about the Gram Panchayats that had not received the amount. In such cases, the advices were again being made and presented, to the bank, to release the amounts pertaining to such Gram Panchayats. Records related to the release of amount were maintained separately. Deputy Secretary added that, after issuing the advice, tracing the Gram Panchayats/units for whom the amount had remained lying in their accounts, was difficult to monitor and no system for tracing this had yet been developed. For this, efforts are being made to make a dashboard in the department, so that such cases could be detected early and the amounts could be sent to the Gram Panchayats/units concerned, without delay. Due to this reason, there was a difference between the Cash Book and the Pass Book and the Department did not maintain a bank reconciliation statement. It was also stated that the prescribed format of the Bank Reconciliation Statement was not available with the Department and, after receiving the prescribed format, the same would be prepared. Details are given in **Table-1.17** below:

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<sup>19</sup> (1) Mukhyamantri Nischay Yojana, (2) 14<sup>th</sup> FC, (3) 5<sup>th</sup> SFC, (4) Salary, office expense, vehicle, earlier schemes, etc main head (2515), (5) Salary, office expense, vehicle fuel, legal items, etc. (3415) (6) Salary, office expense, vehicle fuel legal items, etc (2013) (7) PHED and (8) RGSA (partly) for the amount ₹ 8.61 crore.

<sup>20</sup> Balance as per cash book and bank passbook, as of 31<sup>st</sup> March 2020, was ₹ 80.18 crore and ₹ 113 crore, respectively.

**Table-1.17: Details of the balance of Cash Book and Bank passbook as of 31 March 2020**

Sl. No.	Major Head	Details of Items	Bank Account No.	Cash Book balance	Passbook balance
1	2515	Mukhyamantri Nischay Yojana	50100188122505 (HDFC Bank)	75,20,80,034.00	102,35,91,807.00
2	2515	14 <sup>th</sup> FC	35628359887 (SBI) and 50100188126888 (HDFC Bank)	2848322.00	2,15,97,150.56
3	2515	5th SFC	50100188127125 (HDFC Bank)	1,59,34,820.00	8,44,36,077.00
4	2515	Salary, office expense	36314233682 (SBI)	3,09,38,481.00	3,52,490.50
<b>Total Amount</b>				<b>80,18,01,657.00</b>	<b>112,99,77,525.06</b>

(Source: Details provided by PRD)

Reply of the Department was not acceptable, because, due to the non-preparation of the bank reconciliation statement by the Department, Audit could not ascertain the reasons for the difference of ₹ 32.82 crore between the Cash Book and the Passbook. Non-reconciliation of the difference was fraught with the risk of misuse of funds.

### 1.8.5 Maintenance of Accounts by PRIs

#### 1.8.5.1 Maintenance of Accounts by PRIs/Model Accounting System

PRIs had to maintain accounts as per the provisions contained in Sections 30, 58, and 85 of the BPR, 2006, no separate rules have been framed, and the existing provisions of the Bihar Gram Panchayat Accounts Rules, 1949 and Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964 are being followed for maintaining the accounting structure of three tiers of PRIs. The revised Budget and Accounts Rules for PRIs were to be framed in the light of the 73<sup>rd</sup> CAA, but the same had not been framed till August 2021.

Further, the Model Accounting System (MAS) was prescribed (2009) by the GoI, in consultation with the CAG, for the maintenance of accounts of PRIs. Consequently, PRD notified (July 2010) that the account of PRIs would be maintained in the MAS formats, from April 2010. The MAS contained eight formats and data were to be entered in PRIASoft (an accounting software developed by MoPR). However, data entry was done in only three formats till 2014-15, while the remaining five formats were not maintained, as the PRIs were maintaining accounts on cash basis, in the single entry system.

The Department decided (August 2018) to implement e-Panchayat in PRIs, based on the Panchayat Enterprises Suit (PES) Application, containing 10 Application softwares, for different purposes, developed by MoPR, in which PRIASoft was one of the Applications. But, e-Panchayat was not implemented and, in the meantime, MoPR launched eGramSwaraj (April 2020), in which e-Panchayat was merged. The status of implementation of the PES Application is given in *Appendix-1.2*.

Out of 10 applications in PES, GoB implemented three applications fully and one application partially, while the status of implementation of six applications

was not furnished by the Department. Thus, the progress in implementation of the Mission Mode Project (MMP), for effective functioning of governance, service delivery and maintenance of accounts at the Panchayat level, was not satisfactory.

### **1.8.5.2 Implementation of eGramSwaraj**

To strengthen eGovernance in PRIs across the country, MoPR had launched (24 April 2020) eGramSwaraj, a web-based portal. eGramSwaraj aims to bring in better transparency and strengthen e-Governance in PRIs across the country, through decentralized planning, progress reporting, and work-based accounting. eGramswaraj was a single platform for all planning and accounting needs of the Panchayats. It had been developed amalgamating the functionalities of all the applications under the e-panchayat Mission Mode Project. Analysis of the data available at the eGramSwaraj portal revealed the following:

- **Panchayat Profile:** The Panchayat profile displays only details of GPs of the PRIs. Bihar had 2,46,156<sup>21</sup> representatives at GPs level, but details of only 1,37,021 representatives were available in the profile.
- **Planning & Reporting:** Although, there were 19<sup>22</sup> types of reports displayed under this head, only six<sup>23</sup> types of reports were available, just partially.
- **Accounting:** The accounting part of eGramSwaraj consisted of four parts, namely the All India Report, MAS Registers (8 formats), Accounting Entity Wise Report, and Miscellaneous Report. Scrutiny of all these formats, available on the eGramSwaraj portal, revealed that there were 41 schemes listed under Centrally Sponsored schemes, but accounting of only the 15<sup>th</sup> FC schemes was displayed while accounting of other schemes of the Central Government was not displayed, on this portal.

The PRD, GoB, instructed (March 2021) all District Magistrates of Bihar to obtain digital signature certificates of the Maker & Checker of district and block panchayats, for the RGSA scheme and to ensure their registration on the e-Gram Swaraj Application/PRIASoft-PFMS Interface system (March 2021). However, none of the districts and block panchayats were registered with the digital certificate signatures of their Maker & Checker, at the eGramSwaraj portal (August 2021).

- **Audit:** AuditOnline was one of the generic and open source applications developed as a part of PES, under the e-Panchayat Mission Mode Project,

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<sup>21</sup> Mukhiya-8,387, Members of GP- 1,14,691, Sarpanch-8,387 and Panch- 1,14,691

<sup>22</sup> **Planning (11 reports):** Village Wise Gaps of Gram Panchayat Report, Asset Category Wise Activity Report, Approved Action Plan Report, Pending Action Plan Report, Sector Wise Activity Status Report, Activity Wise Expenditure Details Report, Plan Size Report-Scheme Wise, List of Activities, Resource Envelope List, Report on Sector Wise Mission Antyodaya Gaps Addressed and Mission Antyodaya Survey (State Wise).

**Reporting (Six Reports):** Activity Status Report, Scheme Wise Activity Status Report, Geo Tagged Asset Count Report, M-ActionSoft Photo Uploaded Plan Year Wise Report, Activity Analysis Report and, Panchayat Wise Expenditure Report.

**Asset (Two Reports):** List of Asset Panchayat Wise and, Asset Data Entry Report.

<sup>23</sup> Village wise Gaps of Gram Panchayat Report, Asset Category wise Activity Report, Plan size Report-Scheme Wise, Geo Tagged Asset Count Report, M-ActionSoft Photo uploaded Plan Year Wise Report, Activity Analysis Report

initiated by the MoPR. AuditOnline facilitated the financial audit of accounts at all the three levels of the Panchayats and Line Department, by Auditors. Due to the unavailability of accounts of PRIs on PRIASoft, or its alternative application in the State, online audit of entities was not being conducted and only soft copies of Draft Audit Reports of audited entities were being uploaded on the eGramSwaraj portal. Out of 1,710 audit plans of GPs for the year 2019-20, DLFA audited 1,689 GPs during 2019-20.

### **1.8.5.3 AuditOnline in PRIs**

In light of the Fifteenth Finance Commission (15<sup>th</sup> FC) recommendation, regarding timely availability of audited accounts of LBs, MoPR had conceptualized and developed (15 April 2020) the application of AuditOnline for the online financial audit of Panchayat Accounts, wherein various actionable items, with their timelines, relating to the roll-out of AuditOnline, were discussed, to ensure timely completion of the audit of PRIs.

Further, for ensuring the success of the rollout of AuditOnline, MoPR had requested States to ensure the execution of following actions, in a time-bound manner;

- closure of account books for the year 2019-20, in PRIASoft
- registration of Auditors on AuditOnline Application
- preparation of Audit Plan
- completion of training of officials involved in the audit
- completion of the entire exercise of online audit of Panchayat accounts.

The entire audit process was expected to be completed by the end of a calendar year. The AuditOnline application was envisaged to streamline the process of audit inquiries, draft local audit reports, draft audit paras etc., and further enhance transparency and accountability. The status of implementation of Audit Online, in PRIs, was as follows;

**Closure of account books for the year 2019-20 in PRIASoft:** PRD maintained three (Format I to III) out of eight formats of MAS in PRIASoft, up to 2014-15 and entry of data in PRIASoft was stopped on 17 April 2015. Further, the State-based Gram Panchayat Management System (GPMS) was implemented (May 2018) in the State, as a pilot project, in place of PRIASoft, and data of 330 Panchayats were entered in GPMS, during 2018-20. Data in PRIASoft and GPMS in the State were not integrated or linked with the Integrated Financial Management Information System (IFMIS) of the State Governments. Later, the GPMS was discontinued (December 2020) and PRD again initiated the implementation of PRIASoft.

**Registration of Auditors on AuditOnline:** The Finance Department, GoB, had notified (May 2015), constitution of the Directorate of Local Audit Fund, under the Finance Department, for audit of LBs. GoB entrusted (August 2020) AuditOnline of PRIs to DLFA. However, the DLFA had an acute shortage of manpower and, against the sanctioned strength of 314, only 62 audit personnel were posted and all audit personnel were registered on the AuditOnline application.

**Preparation of Audit Plan:** As per the recommendation of 15<sup>th</sup> FC, implementation of Audit Online in PRIs was a mandatory condition for receipt of grants under the 15<sup>th</sup> FC. For the year 2019-20, out of total 8,959 units of PRIs in the State, only 8,244 GPs were registered for AuditOnline while only 1,710 GPs were planned for AuditOnline, against which 1,684 GPs units were covered in the audit as of May 2021.

**Completion of training of officials involved in the audit:** Master Trainers of DLFA were provided training for one day (September 2020), through video conferencing, by the trainer of NIC, which was not sufficient for Audit Online, as stated by the DLFA.

#### ***1.8.5.4 Non-preparation of Budget***

Rule 29 of BPR, 2006, stipulates that every GP 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 fifty *per cent* of its total number of members. Further, Rule 3 of the Bihar Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964 provides that BDO/*Pramukh* shall prepare the budget of the Panchayat Samiti for each year.

However, Audit observed that budgets were not prepared by the three test-checked GPs<sup>24</sup>, for the period 2018-19. Further, budgets were also not prepared by the three test-checked PSs (Jehanabad Sadar, Ram Nagar and Ratnifaridpur), for the period 2017-19, 2014-19 and 2017-19, respectively. These cases are test checked and hence are illustrative. Non-preparation of budget for five years indicates a huge negligence on the part of GPs which needs to be monitored.

On this being pointed out in audit, the Panchayat Secretaries of GPs and BDO-cum-EO of the PSs, replied (July 2019 to November 2019) that budgets would be prepared in the future.

#### ***1.8.5.5 Capacity Building & Training to elected representatives and functionaries of PRIs***

GoI had launched the *Rashtriya Gram Swaraj Abhiyan* (RGSA), for implementation from April 2018 to March 2022, with the primary aim of strengthening PRIs. MoPR had issued a detailed National Capacity Building Framework (NCBF), which laid down a comprehensive framework for building the capacity of PRIs and provided flexible guidelines for training infrastructure, resource persons, logistics of implementation, monitoring & evaluation etc.

The Work Plans, prepared by the States, were to be confirmed by the NCBF and States were required to prepare detailed Annual State Capacity Building Plans for PRIs, in accordance with the guidelines and the same were to be submitted to the MoPR, for appraisal and approval. The annual plans were to be developed by the States, following needs assessment and a process that

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<sup>24</sup> *Gonauli (PS-Bettiah), Laxmannagar (PS-Gayaghat) and Loma (PS-Gayaghat)*

was necessary to include extensive consultation with elected representatives, panchayat functionaries, and other stakeholders.

The 3<sup>rd</sup> meeting of the Central Empowered Committee (CEC) of RGSA was held in February 2019, wherein the CEC considered the Bihar State Annual Action Plan and approved 5,32,283 units<sup>25</sup> of training, with a duration of training from one to seven days, for the financial year 2019-20.

However, against the approved target of 5,32,283 units, the PRD, Bihar imparted the training to only 15,231 units (2.86 per cent), at the State and District levels. Thus, a sufficient training programme was not organized by the Department for elected representatives and functionaries of PRIs. PRD, Bihar, did not furnish a reply as to why the target of training was not achieved.

#### **1.8.5.6 Inadequate institutional arrangements**

- **State Panchayat Resource Centre (SPRC)**

The MoPR, GoI, had approved (2013-14) ₹ one crore for establishment of one SPRC, for conducting training and building strong institutional capability in terms of infrastructure, provision of training equipment and tools, as well as faculty, resource pools etc. Out of ₹ one crore, ₹ 10.00 lakh was released as a token amount during 2013-14. A balance fund of ₹ 90.00 lakh was approved for 2014-15. However, PRD did not utilize ₹ 10.00 lakh, up to August 2021 and the entire amount was lying unspent in the bank account of the Department.

- **Construction of District Panchayat Resource Centers (DPRC)**

Under the RGSA Scheme, funds were provided to construct DPRCs for strengthening institutions for capacity enhancement of PRIs at various levels and enabling them to achieve adequate quality standards in infrastructure, facilities, human resources, and outcome-based training. Under this Scheme, the existing DPRCs were to be strengthened, or new centers were to be established. These centers were expected to be focal points for the conduct and coordination of training, research and analysis, documentation, communication, and development as training networks with academic and research institutions.

PRD, in the light of the 5<sup>th</sup> SFC recommendations, released ₹ 194.05 crore to ZPs of the State, for construction of DPRCs, during September 2018 and February 2019. The estimated cost of DPRCs, for 24 districts, was ₹ 5.14 crore per unit and for the remaining 14 districts, it was ₹ 4.00 crore per unit, with the total estimated cost, for all DPRCs of the State, being ₹ 179.55 crore. Construction of DPRCs was to be executed by ZPs, through an e-tender. However, only four<sup>26</sup> out of 38 districts of the State had started construction of DPRCs till August 2021. Out of the remaining 34 districts, four<sup>27</sup> districts could not start the work, due to non-availability of land while the process of tendering, technical sanction, preparation of DPRs, etc. was at the beginning stage, in 30 districts. Further, the Department did not furnish a reply, in regard to the reason for the excess

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<sup>25</sup> Units indicated training to be imparted to concerned stakeholders at various levels of PRIs.

<sup>26</sup> Gopalganj, Muzaffarpur, Nalanda and Purbi Champaran

<sup>27</sup> Arwal, Patna, Paschim Champaran and Samastipur



release of ₹ 14.50 crore, in comparison to the estimate for the DPRC buildings in the State.

Audit observed that no steps had been taken by the district authorities, to make available the requisite land for the DPRCs. Further, the Department released an excess of ₹14.50 crore to the districts, for the purpose. Reply of the Department in regard to the poor implementation of the Scheme was awaited.

On this being pointed out in audit, the Department replied that DPRCs were not established, as no decision could be taken on the work plan.

- **Construction of Panchayat Sarkar Bhawan**

The GoB had decided to construct a *Panchayat Sarkar Bhawan* (the *Bhawan*) in every Panchayat of the State, in phases (starting from the FY 2012-13), with the objective of functioning as the office of the GPs for discharging assigned functions, such as issue of certificates, permits, licenses, usage as a central point for functions like holding of *Gram Sabhas*, providing information, etc.

The Department had prepared the design of the *Bhawan* with places for elected representatives and functionaries of the Panchayat, judiciary room for *Gram Kachahari*, record room, hall for Panchayat Standing Committee, reception for citizens, service center for computerized services, store, pantry and toilets etc.

There were 8,386 GPs in the State and the GoB had sanctioned the construction of 3,183 *Bhawans*,<sup>28</sup> to be executed by PRD, Bihar *Gram Swaraj Yojana* Society (BGSYS) and GPs, during the financial years 2012-13 to 2018-19. The Department had instructed (August 2019) all District Magistrates to earmark land for construction of the *Bhawans* and send details within a week, so that construction of the building could be started. Against the target of 3,183 *Bhawans*, only 1,392 *Bhawans* had been constructed and, out of them, only 1,091 *Bhawans* had been made functional (till November 2020).

The Department replied (December 2020) that the construction of *Panchayat Sarkar Bhawans* would be completed in a phase-wise manner.

### **1.8.6 Issues related to AC/DC Bills**

#### **1.8.6.1 Issues related to AC/DC Bills**

Rule 177 of the 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 were to be submitted to the AG (A&E), within six months following the month in which the corresponding Abstract Contingent (AC) bills were drawn and no AC bill is to be encashed after the end of this period of six months, unless the DC bill has been submitted.

In audit, it was disclosed that DC bills, amounting to ₹ 91.08 crore, had not been adjusted, as of December 2020, against ₹1,275.78 crore drawn through AC bills

<sup>28</sup> Construction to be done by PRD: 1,435 *Bhawans*; by BGSYS: 313 *Bhawans*; and by GPs: 1,435 *Bhawans*

during FYs 2002-19. Year-wise details of AC bills, pending for adjustment, as of October 2020, are given in **Table-1.18** below:

**Table-1.18: Year-wise AC bills pending for adjustment**

(₹ in lakh)

Sl. No.	Financial Year	Amount of AC bills pending for adjustment
1.	2002-09	1,724.03
2.	2009-10	1,225.58
3.	2010-11	251.16
4.	2011-12	386.61
5.	2012-13	2.42
6.	2013-14	5.24
7.	2014-15	314.57
8.	2015-16	3,784.65
9.	2016-17	1,413.49
10.	2017-19	0.00
<b>Total</b>		<b>9,107.75</b>

(Source: Information provided by the Department)

PRD stated (February 2021) that the Additional Chief Secretary, PRD, directed the District Magistrates, DDC-cum-CEOs, and DPROs for adjustment of the pending DC Bills.

The reply of the Department was not acceptable, as delays in submission of DC bills made the expenditure opaque and proper action was to be ensured by fixing accountability of the responsible officers/officials, who did not comply with the guidelines of the Bihar Treasury Code (BTC), 2011. Further, it was to be ensured by the Department that the AC Bills had not been drawn just to avoid lapse of the budget.





**CHAPTER – II**  
**COMPLIANCE AUDIT**



## Chapter – II

### Panchayati Raj Department

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

The Fifth State Finance Commission (5<sup>th</sup> SFC) was constituted by the Governor of Bihar, in December 2013, in compliance of Article 243-I, read with Article 243- Y of the Constitution of India and as per the provisions of the Bihar Panchayat Raj Act (BPRA), 2006.

The objective of the constitution of SFC was to review the financial position of Panchayats and Municipalities and make recommendations in respect of (a) the principles that should govern the distribution between the State Government and Local Bodies (LBs), of net proceeds of taxes, duties, tolls and fees leviable by the State and inter-se allocation between different Panchayats and Municipalities (b) the determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the LBs (c) the grants-in-aid to the LBs from the Consolidated Fund of the State (d) the measures needed to improve the financial position of LBs and (e) any other matter in the interest of sound finances of the Panchayats.

The 5<sup>th</sup> SFC submitted its report in January 2016, for the period 2015-20 and made 47 major recommendations. The State Government accepted (February 2016) these recommendations, with modifications in four recommendations.

Audit test-checked records related to 5<sup>th</sup> SFC, maintained by Panchayati Raj Department (PRD), Government of Bihar (GoB) and 21 PRI units, including District Panchayat Raj Offices<sup>29</sup> (DPROs) for the period 2015-20, during November 2020 to March 2021. A list of the test-checked units is given in *Appendix 2.1*. The Audit evidence was obtained through audit observations/questionnaires/physical verification of works and also from records, replies, documents furnished by the test-checked units. Entry meetings at the commencement of audit and exit meetings on conclusion of audit, were held with the appropriate authorities of the test-checked units and their replies have been suitably incorporated in the report.

#### **Audit findings**

##### 2.1.1 Status of implementations of the recommendations

###### 2.1.1.1 Acceptance of the 5<sup>th</sup> SFC recommendations by GoB

The 5<sup>th</sup> SFC made four major recommendations regarding transfer of funds to LBs, which were accepted by the GoB, with modifications, as given in **Table 2.1** below:

<sup>29</sup> Four ZPs, five DPROs, four PSs and eight GPs

**Table 2.1: Recommendations accepted with modifications**

Recommendation made by the 5 <sup>th</sup> SFC	Recommendation accepted with modifications
The total SFC transfers (Devolution + Grants) would be 2.75 per cent in 2015-16, 3 per cent in 2016-17 & 2017-18 and 3.25 per cent in 2018-19 & 2019-20 of the State Budget.	In each financial year, 2.75 per cent of the total expenditure (actual) of the State during the last financial year would be transferred to the LBs, as Devolution and Grant, effective from the year 2015-16.
Devolution for 2015-16 to 2019-20: Based on the scenarios of varying per cent of devolution, devolution of 8.5 per cent in 2015-16 and 9 per cent in 2016-17 to 2019-20 of the divisible pool.	In each financial year, 8.5 per cent of the net State's Own Tax Revenue, during the last financial year, would be transferred to the LBs, as Devolution.
The devolved funds would be shared among the PRIs and the ULBs in the ratio of 70:30 for the year 2015-16 and 60:40 for the subsequent years (2016-17 to 2019-20).	During the financial years 2015-16 to 2019-20, inter LB transfer, between the PRIs and the ULBs, would be made, in the ratio of 70:30.
Devolved funds in 2015-16 would be released to LBs in one instalment based on the R.E/ Actuals of 2014-15. In the subsequent years, 1st allocation of 50 per cent of the devolved funds would be released in April and second instalment by October of the year subject to the submission of accounts of the previous year, even internally audited.	Prior to release of the 2 <sup>nd</sup> instalment of total transferable amounts to LBs, submission of accounts of expenditure incurred in the previous year, internal audit report and Utilisation Certificate would be mandatory.

(Source: Government notification dated 24 February 2016)

Audit observed that, due to modifications in the major recommendations, by the GoB, while accepting the 5<sup>th</sup> SFC recommendations, funds could not be released to PRIs as estimated and envisaged by the 5<sup>th</sup> SFC, as detailed in subsequent paragraphs of the report. Audit also observed that the State Government did not release funds to LBs as per the accepted recommendations, which resulted in deprivation of funds to PRIs, as discussed below:

- As per the accepted recommendation, the GoB had to transfer funds in each financial year, to LBs at the rate of 2.75 per cent of the total expenditure of the State during the last financial year, as devolution and grant. In the year 2019-20, a total amount of ₹ 2,983.75 crore was to be transferred, against which only ₹ 2,884.04 crore was released, resulting in short release of funds of ₹ 99.71 crore, for the year 2019-20.
- The 5<sup>th</sup> SFC recommended that funds for the year 2015-16 would be released to LBs in one instalment, based on the Revised Estimate/ Actuals of 2014-15. A total sum of ₹1,822.94<sup>30</sup> crore was to be released to PRIs, for the year 2015-16, but the GoB did not release the funds. Audit further observed that, due to procedural delays, and lack of coordination between the Finance Department and PRD, the amount could not be released and PRIs were deprived of these funds. Thus, the recommendations of the 5<sup>th</sup> SFC could not be implemented in the year 2015-16.

<sup>30</sup> Grants under 5<sup>th</sup> SFC are 2.75 per cent of the total actual expenditure of the state in the last financial year. Share of PRIs is 70 per cent and ULBs is 30 per cent. (₹ 94698.05\*2.75 per cent \*70 per cent = ₹ 1,822.94 crore)

### 2.1.1.2 Status of implementation of the recommendations

On the basis of audit scrutiny of records related to implementation of the 5<sup>th</sup> SFC recommendation, at the PRD and test-checked PRIs units and as per the information furnished by them, only 6 (13 *per cent*) out of 47 recommendations were implemented fully by the GoB. A summary of the status of implementation of the 5<sup>th</sup> SFC recommendations is given in **Table 2.2** below, while details of implementations of recommendations are given in **Appendix 2.2**.

**Table 2.2: Status of implementation of recommendations**

Total recommendations	Recommendations implemented fully	Recommendations implemented partly	Recommendations not implemented	Status not ascertained
47	6	10	26	5 <sup>#</sup>

(Source: Information received from Department and test checked units)

# Status of five recommendations could not be ascertained in audit, as related records not produced to Audit.

- **Recommendations implemented fully**

Audit observed that six accepted recommendations were fully implemented by the GoB. These recommendations were (i) devolution of 8.5 *per cent* of the divisible pool of taxes, for the period 2019-20 (ii) devolved funds shared among the PRIs and the ULBs in the ratio of 70:30, for the year 2015-20 (iii) devolved funds to the PRIs were distributed among GP: PS: ZP in the ratio of 70:10:20 (iv) allocation of the devolved funds among different tiers of the PRIs (v) total transfers (Devolution + Grants) recommended by the 5<sup>th</sup> SFC being over and above the normal State budgetary provisions for the LBs.

- **Recommendations not implemented**

Some of the important 5<sup>th</sup> SFC recommendations that were non/partly implemented by the GoB, were (i) the LBs must make all efforts to raise their own resources (tax & non-tax), to increase their own revenues, to enhance their autonomy and accountability (ii) no rule was framed by GoB to enable PRIs for imposition of tax on Profession, Trade, Callings and Employment, Property taxes, fees etc. (iii) net proceeds, collected from rural and urban areas, should be divided between urban and rural in the ratio 2:1 (iv) Funds earmarked for Manpower by the 5<sup>th</sup> SFC are only for the sanction of new posts and filling of the vacant positions, as per the Model Panchayat Cadres (v) Sufficient manpower and its allocation has been recommended by this Commission to ensure that the working of District Planning Committee (DPC) is effective (vi) To restructure staffing urgently and equip all LBs with relevant, adequate and skilled manpower, as per the model staffing pattern (vii) Putting in place an Ombudsman separately, for PRIs, to deal with, the complaints of corruption and maladministration (viii) effective Social Audit by the Gram/Ward Sabha etc.

Audit observed that, due to non-implementation of the aforesaid recommendations, the PRIs were unable to impose and collect tax and non-tax revenue, as provided in the BPR 2006 and, therefore, could not generate revenue from their own sources. Thus, they remained substantially dependent on Government grants for carrying out their mandated functions, including establishment expenditure. The DPC, which had key role in



planning and was responsible for consolidation of the District Development Plan for the district as a whole, was not provided with sufficient manpower and, therefore was not effective. Budget and Accounts Rules for PRIs, in the light of the 73<sup>rd</sup> Constitution Amendment Act, were not framed and the Gram Panchayat Accounting Rules, 1949, along with the Bihar Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964, were being followed. Transparency and accountability in the implementation of schemes was not satisfactory, due to non-appointment of Ombudsman and non-conduct of Social Audit in PRIs. Further, 72 per cent of the sanctioned posts of Panchayat Secretary, at GP level, were vacant and no posts were created for Panchayat Samitis.

## 2.1.2 Finance

### 2.1.2.1 Fund flow mechanism

As per the recommendation of the 5<sup>th</sup> SFC, GoB had to transfer the funds from the Consolidated Fund of State, to LBs, as grants and devolution. The transfers of funds were over and above the normal State budgetary provisions for the LBs. Further, funds were to be transferred directly into the bank accounts of the PRIs concerned, through electronic fund transfer and the core banking system. Where such a facility was unavailable, another mode of expeditious transfer was to be notified by the State Government.

Audit observed that funds were transferred directly into the account of GPs and ZPs but the Department failed to transfer funds directly into the accounts of Panchayat Samitis (PSs). Test-check of records of two ZPs, Siwan and ZP, Darbhanga, revealed that, funds amounting to ₹ 2.51 crore, had not been transferred to nine PSs, up to 18 March 2021 by the ZP, Siwan and there was delay in transfer of funds to PSs, ranging from 12 days to eight months, by ZP, Darbhanga (*Appendix 2.3*). The ZP, Siwan, replied (March 2021) that, due to technical problem in transferring of fund through RTGS, amounts could not be transferred to PSs.

### 2.1.2.2 Receipt and Expenditure

The State Government released funds of ₹ 10,064.85 crore<sup>31</sup> to the PRIs, for the financial years 2016-17 to 2019-20 as per the details given in **Table 2.3** below:

**Table 2.3: Funds sanctioned, released during the financial years 2015-16 to 2019-20**

(₹ in crore)

Sl. No.	Financial Year	Entitlement of PRIs	Fund Sanctioned	Less Sanction	Fund released	Less release
1.	2016-17	2,162.30	2,162.30 (1 <sup>st</sup> + 2 <sup>nd</sup> )	00	2,156.64	5.66
2.	2017-18	2,431.30	2,431.30 (1 <sup>st</sup> + 2 <sup>nd</sup> )	00	2,423.58	7.72
3.	2018-19	2,600.60	2,600.60 (1 <sup>st</sup> + 2 <sup>nd</sup> )	00	2,600.59	0.01
4.	2019-20	2,983.75	2,893.04 (1 <sup>st</sup> + 2 <sup>nd</sup> )	90.71	2,884.04	99.71
<b>Total</b>		<b>10,177.95</b>	<b>10,087.24</b>	<b>90.71</b>	<b>10,064.85</b>	<b>113.10</b>

(Source: UCs furnished by PRD)

Note: In 2015-16, funds were not allocated and released to PRIs.

<sup>31</sup> Devolution ₹ 5,908.16 crore and Grant ₹ 4,156.69 crore.

It is evident from the table above that, the GoB did not release the entitled funds (as per the accepted recommendations of the 5<sup>th</sup> SFC) to PRIs and there was short release of ₹ 113.10 crore to PRIs, during FYs 2016-17 to 2019-20.

### 2.1.2.3 Delayed Sanction of funds to PRIs

As per the 5<sup>th</sup> SFC recommendations, the PRD had to transfer devolved funds to PRIs in April (1<sup>st</sup> instalment) and in October (2<sup>nd</sup> instalment). However, funds were released with delays, ranging from four to nine months, in all the financial years from 2016-17 to 2019-20, as given in **Table 2.4** below:

**Table 2.4: Delays in sanction of funds to PRIs**

(₹ in crore)

Sanction date	Installment	Released Amount	Delays in months
23-12-2016	1 <sup>st</sup> of 2016-17	1,081.16	8
29-03-2017	2 <sup>nd</sup> of 2016-17	1,081.14	5
08-01-2018	1 <sup>st</sup> of 2017-18	1,215.65	9
26-03-2018	2 <sup>nd</sup> of 2017-18	1,215.65	5
05-09-2018	1 <sup>st</sup> of 2018-19	1,300.29	5
08-02-2019	2 <sup>nd</sup> of 2018-19	1,300.30	4
07-08-2019	1 <sup>st</sup> of 2019-20	1,491.87	4
13-04-2020	2 <sup>nd</sup> of 2019-20	1,401.17	6

(Source: Allotment letters)

Thus, the Department did not adhere to the timeline recommended by the 5<sup>th</sup> SFC. On this being pointed out by Audit, the PRD replied (23 July 2021) that, due to procedural<sup>32</sup> delays, release of funds to PRIs got delayed. The reply furnished by the PRD was not acceptable, as the Department had to ensure timely release of funds to PRIs and a mechanism for expeditious transfer of funds was to be devised accordingly.

### 2.1.2.4 Utilisation of grants under Capacity Building

The 5<sup>th</sup> SFC recommended that grants available to the PRIs should focus on Capacity Building and were to be utilized for the specified purposes<sup>33</sup>. An item-wise comparison of distribution of grants, as recommended by the 5<sup>th</sup> SFC and the actual distribution of grants, as sanctioned by the PRD, is given in **Appendix 2.4** of the report. Audit observed the following;

- (i) The PRD did not sanction any grants under three major items viz. *Panchayat Sarkar Bhavan/Zila Parishad Bhavan*, District Planning Committees and Ombudsman Case Disposal, Dispute Free Village and Additional Resource Mobilization. The PRD replied (July 2021) that, as the priority (90 per cent funds of devolution portion of 5<sup>th</sup> SFC were transferred for

<sup>32</sup> Time taken in working out the figure of State Own Tax Revenue, approval from the Council of Ministers, approval from Finance Department etc.

<sup>33</sup> (a) Manpower, Training, e-Governance, Office Space, (b) GK, (c) Preparation of Master Plans/CDPs/DPRs/GIS Maps, (d) Developing Divisional and District Headquarters on the lines of Smart and AMRUT Cities, (e) SPUR Type Professional Services to the ULBs and the PRIs, (f) Promoting PPP, (g) Incentive for ARM and Performance Grants, (h) Regulatory Bodies including Ombudsman, State Property Tax Board, Urban Regulator, (i) DLFA and internal audit (j) Professionalizing the SFC Cell in Finance Department.

*Mukhyamantri Nischaya Yojana* (MMNY)) was given for the MMNY scheme, funds could not be released under the aforesaid heads. Thus, the recommendation of 5<sup>th</sup> SFC, to focus on capacity building measures, was not implemented.

- (ii) The PRD sanctioned grants, amounting to ₹ 62.75 crores<sup>34</sup> for establishment of an SFC Cell, for monitoring and effective implementation of the recommendations of the 5<sup>th</sup> SFC; video conferencing facilities; and providing laptops to Block Panchayat Raj Officers (BPROs). Audit observed that a total grants of ₹ 16.09 crore<sup>35</sup> were released to five test-checked DPROs and PRD, for establishment of these SFC Cells during 2017-18 but SFC Cells were established only in DPRO, Motihari and four other DPROs, PRD failed to establish the Cell. Further, the DPRO, Patna, utilized ₹1.27 crore for purposes<sup>36</sup> other than the establishment of an SFC Cell.

The PRD replied that the Department had sufficient manpower for management of 5<sup>th</sup> SFC funds while the test-checked DPROs (Patna, Saran and Siwan) replied that, after taking approval from the Department, the funds would either be refunded to the Department, or would be spent on the SFC Cell. The reply furnished by the Department was not acceptable, as the reply was not relevant to the audit observation and the Department failed to establish the SFC Cell, despite receipt of funds for the same. Replies of the DPROs of the test-checked units were also not acceptable as separate approval for utilisation of funds was not required.

Further, there were serious inconsistencies and imbalances between the figures projected by the 5<sup>th</sup> SFC and the figures of actual grants released by the PRD for PRIs. The Department failed to ensure the implementation of the 5<sup>th</sup> SFC recommendations, for disbursement of item-wise grants among the PRIs.

#### **2.1.2.5 Status of utilisation of funds**

The 5<sup>th</sup> SFC recommended that the first allocation of 50 per cent of the devolved funds would be released in April, while the second instalment was to be released by October of the year, subject to submission of accounts of the previous year having been audited even by Internal Audit. However, the Finance Department, under its resolution (February 2016), provided that it would be compulsory to submit the accounts of the expenditure made during the last financial year and the internal audit report, along with the UCs, before release of the second instalment of the total amounts to be transferred to the LBs. Further, as per provision contained in BFR, the UCs of the amount of grant-in-aid are to be submitted within 18 months from the date of its sanction.

The position of submission of UCs, of the amounts of grants and devolution released during the financial years 2016-17 to 2019-20, is given in **Table 2.5** below:

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<sup>34</sup> ₹ 9.41 crore for the SFC Cell in PRD, ₹ 43.84 crore for the SFC Cell in District Panchayat Offices ₹ 9.50 crore for video conferencing facility and providing laptops for Block Panchayati Raj Officers.

<sup>35</sup> ₹ 7.38 crore- PRD, ₹ 1.68 crore- Patna, ₹ 1.69 crore- Darbhanga. ₹ 1.69 crore Saran, ₹ 1.53 crore-Siwan and ₹ 2.12 crore-East Champaran (Motihari)

<sup>36</sup> Purchase of battery, printer, tent etc.

**Table 2.5: Status of utilisation of funds released under 5<sup>th</sup> SFC***(₹ in crore)*

Financial Year	Grants 1 <sup>st</sup>	Grants 2 <sup>nd</sup>	Devolution 1 <sup>st</sup>	Devolution 2 <sup>nd</sup>	Total sanctioned	Total released	Remarks
2016-17	342.60	342.58	738.56	738.56	2,162.30	2,156.68	UCs for only ₹ 431.61 crore were obtained till May2021.
2017-18	530.00	530.00	685.65	685.65	2,431.30	2,423.58	
2018-19	621.71	621.72	678.58	678.58	2,600.59	2,600.60	
2019-20	628.42	562.04	863.45	839.13	2,893.04	2,884.04	
<b>Total</b>	<b>2,122.73</b>	<b>2,056.34</b>	<b>2,966.24</b>	<b>2,941.92</b>	<b>10,087.23</b>	<b>10,064.90</b>	

*(Source: sanctioning Letter by the PRD)*

As of May 2020, UCs for ₹ 5,893.89 crore<sup>37</sup> (₹ 2,366.89 crore grants and ₹ 3,527.00 crore devolution amount) were required to be submitted. However, against this amount, UCs for ₹ 431.61 crore only were obtained from the PRIs. Further, the second and subsequent instalments were released without receiving the accounts of previous years and UCs of previously released grants. This was in violation of the recommendation of the 5<sup>th</sup> SFC and instruction issued by the Finance Department, GoB.

Thus, as of May 2020, UCs of at least ₹ 5,462.28 crore had not been received from the PRIs and, accordingly, utilisation of the amounts was not verifiable.

### 2.1.2.6 Lapse of Grant

The PRD released (January 2018) a total sum of ₹1.76 crore<sup>38</sup> to the DPRO, Patna, for *Gram Kachahari* and establishment of the SFC cell in the DPRO. The DPRO, Patna, failed to withdraw the amount from the Treasury, that resulting in lapse of grant of ₹ 1.76 crore. On this being pointed out in audit, the DPRO Patna, stated (29 June 2021) that, due to non-receipt of allotment letter, the amount could not be withdrawn. The reply furnished by the DPRO was not acceptable, as the Department had released the allotment through electronic means and information was given on website of the Department. Thus, due to lapse on part of the DPRO, PRIs were deprived of grant of ₹ 1.76 crore.

### 2.1.3 Execution of schemes

As per direction issued by the Department, funds released under the devolution head were to be utilised for strengthening of PRIs, internal audit, timely submission of accounts, operation and maintenance of old infrastructure and services, and for the two schemes, “*Mukhyamantri Gramin Peyjal Nischay*” and “*Mukhyamantri Gramin Gali-Nali pakkikaran*”, out of the seven schemes that are a part of the “*Saat Nischay Yojna*” to be implemented by GPs in Bihar. Funds released under the grant head were to be utilised for capacity building, e-governance, re-enforcement of office space and State Finance Commission Cell, etc. Irregularities in execution of schemes noticed in audit have been discussed below:

<sup>37</sup> Up to first instalment of 2018-19.

<sup>38</sup> ₹1.61 crore for *Gram Kachahari* and ₹ 14.59 lakh for *SFC Cell at DPRO*

### 2.1.3.1 Misappropriation of Government money

Rule 90 of the Bihar Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964, stipulated that the second and subsequent advances, for a purpose, should not be paid, unless accounts of the 1<sup>st</sup> advance were rendered.

Scrutiny of records, relating to works taken up under the 5<sup>th</sup> SFC of Panchayat Samiti, Dariyapur revealed that Panchayat Secretaries of the GPs were made the executing agents for execution of three works undertaken during the financial year 2019-20. The works were to be completed within three months from the date of the issue of the work order. Further, for execution of these works, a total advance of ₹ 16.23 lakh was paid to the agencies in February 2020, in two to three instalments as per the details given in **Table 2.6** below:

**Table 2.6: Details of advance paid to the Executing agents**

(Amount in ₹)

Sl. No.	Scheme No.	Name of scheme	Executing agents	Dates of payment	Amount of advance	Total advance	Status of work.
1.	14/18-19	Construction of road from south of <i>Simrahiya Dhala</i> at GP Muzauna.	Sunil Kumar Roy.	12.2.19 06.03.2019	7,500 (1 <sup>st</sup> ) 3,00,000 (2 <sup>nd</sup> )	3,07,500	Not started
2.	1/19-20	Construction of road from house of Madan Bhagat at GP Balbahiya under GP Muzauna.	Ashok Kumar Singh.	8.2.20 12.02.20 26.02.20	7,500 (1 <sup>st</sup> ) 3,00,000 (2 <sup>nd</sup> ) 2,00,000 (3 <sup>rd</sup> )	5,07,500	Not started
3.	2/19-20	Construction of road from <i>Mahi bandh</i> to Yadunandan Bhagat at GP Muzauna.	Ashok Kumar Singh	8.2.20 12.02.20 26.02.20	7,500 (1 <sup>st</sup> ) 5,00,000 (2 <sup>nd</sup> ) 3,00,000 (3 <sup>rd</sup> )	8,07,500	Not started
<b>Total</b>						<b>16,22,500</b>	

(Source: Scheme files)

Audit physically verified the the work in presence of the Junior Engineer (JE) of the PS and observed that all the aforesaid three works had not been executed. The amount of advance was paid to the agencies in two to three instalments, on the recommendation of the JE, which clearly indicated that the JE recommended for payment of the advance, without assessing the actual progress of the works. The amount was lying with the agencies till January 2021.

On the matter being pointed out by audit, the Block Development Officer-cum-Executive Officer (BDO-cum-EO) of the PS replied (December 2020) that the notice had been issued to the executing agencies and the amount would be recovered from them. However, reply regarding non-starting of scheme number 14/2018-19 was not furnished by the BDO-cum-EO of the PS.

Retention of ₹ 16.23 lakh, by the executing agents, for one to two years, was tantamount to temporary misappropriation of PS funds. During this period, the amounts were out of PS accounts. Further, the recommendation by the JE, for subsequent advance, without the assessment of the actual progress, shows a nexus of the JE with the executing agents. Payment of second and subsequent advances, for the same works, was in violation of the Bihar PS and ZP (Budget and Accounts) Rules and the objective of the works, i.e. providing rural connectivity, remained unfulfilled.

### 2.1.3.2 Non-construction of DPRC building

PRD provided funds to ZPs for construction of District Panchayat Resource Centres (DPRCs)/*Mukhia, Sarpanch Prasikshan Sansthan*, during 2018-19, for the purpose of training of elected members of PRIs. The Department did not prescribe the timeline for construction of DPRC building. But, the units where construction work was started had been given a stipulated time of one year (as per work order) for completion of the construction work.

Audit observed that the PRD released (FY 2018-19) ₹ 24 crore to four ZPs<sup>39</sup>, for construction of DPRC buildings but construction work had not been started in three out of four ZPs till March 2021.

Audit further observed, that non-availability /delay in identification of land, for construction of DPRC, was the reason for delay in commencement of work in ZPs Saran and Siwan. Whereas, in ZP, Darbhanga, the tender could not be finalized, as the Finance, Audit and Planning Committee (Standing Committee), empowered to finalize the tender, was not constituted by the ZP. Hence, the funds remained unutilized in the ZPs bank accounts.

The matter was being reviewed by the Department through monthly meetings with the DPROs of the districts and the matter of non-availability of land was in the knowledge of the Department.

On this being pointed out in audit, PRD stated that tender had been invited in three ZPs (Darbhanga, Saran and Siwan), while work was in progress in Motihari. This clearly indicated that the progress of construction was very slow and there were lapses in monitoring by the DDC-cum-CEOs of the ZPs.

### 2.1.3.3 Irregularities in purchase of goods

The Bihar Financial (Amendment) Rules, 2017, stipulate that generally payment should not be made to the supplier in advance and if it is necessary to make advance payment, it should not be more than 30 *per cent* of the value of the goods, in case of a private supplier. Further, the goods and services available on GeM portal should be mandatorily procured through the portal and works should not be split into pieces to avoid taking sanction from higher authorities for acquisition of goods through the required tender process.

The ZP, Siwan, approved (23 December 2017) procurement of various types of goods for furnishing, to ensure a proper seating arrangement in the meeting hall of the ZP. Work order was issued between October 2018 and January 2020, with the instruction that goods were to be supplied within one/two months from the issuance of the work orders, failing which the security deposits of the tenderers were to be forfeited.

The goods were procured during October 2018 to March 2019, for office use and a total payment of ₹ 1.98 crore was paid to the suppliers, during October 2018 to August 2020 vide details given in **Table 2.7** below:

<sup>39</sup> Darbhanga, East Champaran (Motihari), Saran and Siwan

**Table 2.7: Details of procurement of goods by ZP**

(Amount in ₹)

Sl. No.	Item of goods	Tender value	Payment made	Remarks
1.	AC & Electrification	21,69,145	19,51,000	Tender was invited in four parts and works were awarded to two separate firms.
	Wifi & IP camera	9,98,516	9,58,576	
	Integrating Networking wi-fi & videowall	24,06,753	23,10,483	
	Videowall TV, Air conditioner, mike system, tables, chairs and almirahs	24,26,333	22,53,144	
2.	False ceiling, wall paneling, projectors, fire extinguishers, roller blinds, wall and ceiling screens	18,94,559	16,50,000	Tender was invited in two parts and works were awarded to two separate firms.
	False ceiling & wall panelling	24,64,639	22,17,000	
3.	Soundless Gen. & Electrification, DG set	26,89,625	19,39,000	Tender was invited in two parts and works were awarded to two separate firms.
	Modular Furniture	23,53,942	23,53,940	
	Roller blinds, addl. furniture	24,85,504	22,36,000	
4.	One Lift/Elevator	39,60,000	19,80,000 (Advance 1)	Estimated cost mentioned in the tender was only ₹ 24.90 lakh but work order was given for ₹ 39,60,000/-
<b>Total</b>		<b>2,38,49,016</b>	<b>1,98,49,143</b>	

(Source: Purchase files)

Audit observed the following discrepancies in procurement of the aforesaid goods;

- The total value of goods were to be procured was split into two to four parts to bring the estimated value of the goods to be procured below ₹ 25 lakh, to avoid calling advertised tender. On this being pointed out in audit, the District Engineer (DE), ZP, stated that, to complete the work in a time bound manner, procurement works were split into parts.
- Procurement was not done through GeM portal, despite Government direction. The DE, ZP, stated that, due to non-receipt of direction of the government regarding procurement of goods through GeM, goods were not procured through GeM.
- It was observed that, for supply and installation of lift in the building under construction, initially, an estimate of ₹ 24.90 lakh was prepared for procurement and installation of lift and tender was invited accordingly on 23 February 2019. Against this, however, two bidders quoted the rates of ₹ 44.15 lakh and ₹ 39.60 lakh. Instead of retendering the work, the ZP accepted the quoted price of ₹ 39.60 lakh for the complete job (cost of lift and fabrication cost), with the approval of the Purchase Committee and the Chairperson, ZP, on 6 March 2019, and the DDC-cum-CEO of the ZP issued work order to M/s SKN Creative Private Limited on the same day. But, this work order was later cancelled, due to change in the installation site for the lift.

The work order was issued again on 10 January 2020, to M/s SKN Creative Private Limited and an advance of ₹ 19.80 lakh (50 per cent of the tender amount) was paid to the contractor. The lift was to be supplied by the

firm within two months from the date of award of the work. The lift had, however, not been supplied till March 2021, i.e. even after a lapse of more than one year.

Further, sanctioning of advance of more than 30 *per cent* of the value of the goods was in violation of the BFR and the work was awarded beyond approved tender value. On this being pointed out in audit, the District Engineer, ZP, accepted that lift had not been supplied till 18 March 2021 and replied that the minimum quoted rate was ₹ 39.60 lakh and, therefore, the work order was issued on that rate.

- No Stock register for receipt of goods was being maintained and quality checks of the goods procured were also not being done at the ZP level.

Thus, the ZP, Siwan, did not adhere to financial rules regarding procurement of goods, leading to irregular purchase amounting to ₹ 1.98 crore.

#### 2.1.3.4 Irregularities in Muster Rolls

The Bihar Treasury Code 2011, Rule 248 (a), provides that wages of labourers, engaged departmentally, shall be drawn on Muster Roll, showing the name of labourers, number of days they had worked and the amount due to each labourer, with the Muster Roll being written up daily. However, in test checked 19 works of ZP, Darbhanga, Muster Rolls were not maintained for works and payment of wages, amounting to ₹ 21.60 lakh was made to labourers on plain paper, without any details. Thus, a total wage payment of ₹ 21.60 lakh was doubtful. The ZP did not furnish any reply.

#### 2.1.4 Conclusion

PRD accepted all the recommendations of the 5<sup>th</sup> SFC, but with modifications in four major recommendations related to finances of LBs. Out of the total of 47 major recommendations, GoB implemented only six recommendations fully. As such, the purpose of strengthening of PRIs towards self-reliance, as envisaged by the 73<sup>rd</sup> Constitutional Amendment, Central and State Finance Commission, could not be achieved satisfactorily. GoB did not transfer any funds to PRIs for the year 2015-16 and, therefore, the 5<sup>th</sup> SFC recommendations were not implemented for the year 2015-16. Non-tapping of sources to improve revenue from own sources, transfer of funds to PRIs with delays, non-receipts of UCs, irregularities in execution of schemes etc. indicated deficiencies in financial management, coupled with inadequate monitoring. The model staffing pattern, as recommended by 5<sup>th</sup> SFC, was not implemented and all the PRIs had an acute shortage of manpower at all levels.

## 2.2 Loss of revenue

**Zila Parishad, Gopalganj, failed to realize the settlement amount in respect of three *sairats*<sup>40</sup> from the bidders, resulting in a loss of revenue, amounting to ₹ 10.11 lakh.**

Rules 106 and 109 of the Bihar Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964, stipulate that, three months before the close of the

<sup>40</sup> 'Sairat' means 'haats', roadside land, bus stand, pond, ferries, etc., which are sources of income of the ZP.



financial year, the properties of the Zila Parishad (ZP) shall be surveyed and the items fit for settlement for the following year shall be entered in the register of fixed demand. Further, the fixed demand register shall be laid before the Secretary of ZP/Block Development Officer, who shall compare the total for each month with the classified abstract of receipts and, as far as possible with the Challan. He shall also carefully compare the credit with the particulars of the demand and take necessary action for the recovery of settlement of the outstanding amounts.

Scrutiny (audit conducted in July 2017 and the status updated in February 2021) of records of ZP, Gopalganj, revealed that three *Sairats*<sup>41</sup> were settled (February 2016 and February 2017) by the ZP, with the highest bidders at ₹ 14.20 lakh, for one year period and agreement was executed with them. As per conditions laid in the Auction Notice for the settlement, the entire amount of the bid was to be deposited by the successful bidder, just after the end of the bidding process. However, the ZP realized only ₹ 4.09 lakh, against the total demand of ₹ 14.20 lakh.

The Chief Executive Officer (CEO) of the ZP failed to collect the entire amount of bid in one lump just after the finalization of the bid and irregularly allowed the bidders to collect the amount from *sairats*. Further, the CEO failed to maintain the fixed demand register, to keep a watch on realisation of the settlement amount. In case of non-receipt of entire amount of settlement in one lump, the CEO of the ZP was required to take action for cancellation of the settlement at first and realization of full amount of bid was to be ensured before executing the agreement with the lessee. Further, as per condition laid down in the agreement, if the lessee failed to deposit the amount of bid in full, the remaining amount was to be recovered from him by lodging a Certificate Case, under Bihar and Orissa Public Demands Recovery Act, 1914. But, the CEO of the ZP did not lodge Certificate Cases against the bidders and failed to protect the financial interest of the ZP. As a result, even after a lapse of three to four years of settlement of *sairats*, settlement amount, to the tune of ₹ 10.11 lakh<sup>42</sup>, could not be realized from the lessee, till July 2021 (**Appendix 2.5**).

On this being pointed out in audit, the District Engineer of the ZP replied (February 2021) that notices were issued (September 2016 to July 2019) to the lessees, to deposit the outstanding amount. Had the CEO of the ZP followed the conditions laid in the Auction Notice and in the agreement regarding settlement of *sairat*, the financial interest of the ZP could have been protected. The matter was regularly followed up by Audit and, as a result, in one case, FIR was lodged (3 July 2021) against the lessee, after more than four years of the settlement of the *sairats*. In the other two cases, neither a Certificate Case, nor an FIR was lodged to recover the amount.

Thus, failure of the CEO of ZP to follow the laid down conditions for settlement of *sairats* and in taking effective steps for recovery of the outstanding settlement amount, resulted in a loss of revenue, to the tune of ₹10.11 lakh, to the ZP.

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<sup>41</sup> *Baghipatti Jheel Taxi Stand (₹ 11 lakh), Gopalganj Gudri Bazaar (₹ 2.90 lakh) and Line Bazaar (0.30 lakh)*

<sup>42</sup> ₹ 14.20 lakh - ₹ 4.09 lakh = ₹ 10.11 lakh

The matter was reported to Government (July 2021); and reminder was issued on 21 September 2021. Reply is awaited.

### 2.3 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.**

Rule 14 of the Gram Panchayat Accounts Rules, 1949, stipulated that, in case of any work to be done by the Panchayat, an advance may be sanctioned out of the Panchayat fund and the advance holder is to render the adjustment accounts within three months from the date of payment of the advance. Further, the second advance is not to be granted, unless accounts of the first advance were submitted and the *Mukhiya* of the Gram Panchayat (GP) had to ensure that advance was not pending for a long period. The Bihar Panchayat (Inspection of Officers and Enquiry into Affairs, Supervision, and Guidance) Rules, 2014, provided that the *Mukhiya* was responsible for financial and executive administration of GP, Block and District levels authorities<sup>43</sup> Were made responsible for inspection of GP offices at prescribed intervals<sup>44</sup>. The Block Panchayati Raj Officer had to inspect, in detail, the offices of at least two GPs per month and ensure that all the GPs under the Block area were inspected compulsorily, at least once in a year and submit a report to the BDO, especially drawing the attention of the BDO towards irregularities noticed in the Cash Book/Scheme Register.

Audit of the accounts of GP, Mohanpur, for the financial years 2008-09 to 2015-16, was conducted in December 2016 and it was observed that the then Panchayat Secretary (PS) of the GP, was made the executing agent for the execution of 34 works undertaken out of the Backward Region Grant Fund (BRGF) and State/Central Finance Commission grants. The estimated cost of these works was ₹ 1.13 crore<sup>45</sup> and a total sum of ₹ 99.56 lakh was paid as advance, to the PS, for execution of these works, from March 2010 to March 2016. The works were to be completed within two to three months from the date of awarding the works.

During the audit, only scheme details were produced and scheme files, Measurement Books (MBs), vouchers, etc., related to the aforesaid 34 works, were not produced. Regarding non-production of records, the present PS replied (December 2016) to Audit that the then PS did not hand over the scheme files to him at the time of his transfer (30 July 2016) to Tariyani Block, despite

<sup>43</sup> Block Panchayati Raj Officer (BPRO), Block Development Officer (BDO), Sub-Divisional Officer (SDO)/District Panchayati Raj Officer (DPRO)/Divisional Deputy Director (Panchayat), Deputy Development Commissioner (DDC), District Magistrate (DM), and Divisional Commissioner

<sup>44</sup> At least one GP each month by BDO, at least two GPs in each month by BPRO, at least two GPs in three months by SDO and DPRO, at least two GPs in every six months by Divisional Deputy Director (Panchayat) and the DDC, at least two GPs in a year by DM and, as per convenience, by the Divisional Commissioner.

<sup>45</sup> The estimated cost of 33 works only. The estimated cost of scheme no. 7/2015-16 was not available.

issuance of notices by the BDO, Piprahi and direction of the District Panchayat Raj Officer (DPRO), Sheohar.

The matter regarding non-production of records to Audit was brought to the notice (April 2017) of the BDO of the Block, District Magistrate of the District, and the Secretary, Panchayati Raj Department (PRD). In response, the BDO replied that the then PS had been instructed several times to hand over the records to the present PS, but the charge was not handed over, even after the instruction of the DM, Sheohar.

As per the direction (June 2018) of the DM, Sheohar, Prapatra 'क' (initiation of disciplinary proceedings) was prepared by the BDO and sent (August 2018) to the DM, Sheohar for further action. The BDO, on the direction of DPRO, also instructed (August 2018) the present PS to lodge an FIR against the then PS. However, neither were the disciplinary proceedings initiated, nor the FIR lodged. The matter was reported (November 2018 and June 2019) again to the DM, Sheohar with a copy to the Pr. Secretary, PRD, to intimate the action taken against the then PS. However, no response was received, either from the DM Sheohar or from the PRD.

As a follow-up, an audit party visited (February 2021) the Panchayat Samiti, Piprahi, for an update on the status of the case. The then PS handed over records related to 19 out of 34 works to the present PS, by stating that no records were available with then PS, in respect of the remaining 15 works. On Scrutiny (February 2021) of the records (Measurement Books, vouchers, and muster rolls) of 19 works, it was observed that only MBs were available in seven works (incomplete), while all records were available in respect of the other 12 works (11 works were complete and one was incomplete). A brief status of these 34 works has been shown in **Table 2.8** below:

**Table 2.8: Status of 34 schemes**

(₹ In lakh)

Sl. no	Number of works	Status of works	Estimated cost of works	Advance paid	Value of work done as per MB	Advance outstanding	Remarks
1.	7	Incomplete	21.32	18.52	21.23	-	Only MB made available.
2.	11	Complete	39.77	37.34	37.74	2.02*	Schemes were shown complete but the process in the scheme file was not completed.
	1	Incomplete	2.05	0.08	1.66	-	The scheme was shown incomplete.
3.	15	Incomplete	49.55	43.62	Not Available	43.62	No records were made available.
<b>Total</b>	<b>34 works</b>		<b>112.69</b>	<b>99.56</b>			

(\*Excess payment of ₹ 2.02 lakh in two schemes) (Annexure-2.6(A) and 2.6(B))

It is evident from the table above that eight out of 34 works, involving an advance of ₹ 18.60 lakh, were incomplete, after a lapse of five to 10 years of awarding the works and no records were available in respect of 15 works, involving advance of ₹ 43.62 lakh.

Audit further observed that the *Mukhiya* and the PS, Joint signatory for withdrawal of amounts from GP funds, paid the second and subsequent advances to the PS, for execution of these aforesaid works, without ensuring the adjustment of the previous advances. The *Mukhiya* of the GP did not monitor the execution of works and also did not watch utilization of funds. Further, the Block and District level authorities did not conduct inspection of GP office and failed to assess the progress of work by supervision. Meanwhile, the PS was transferred to another Block (Tariyani) and his Last Pay Certificate was not issued by the BDO of the Block, to ensure recovery of the advances lying with the PS, at the new place of posting. Further, the BDO of the Block replied (February 2021) that the matter would be investigated and amounts lying with PS would be recovered. The then PS accepted (17 September 2021) the audit observation and requested the District Magistrate, Sheohar, to recover ₹ 43.62 lakh from his due salary.

Thus, the PS retained the money for a long period, which was tantamount to misappropriation of government money. This was rendered possible, as the BPRO and BDO of the Block, as well as district level authorities, did not inspect the GP office, did not monitor the progress of execution of works and also failed to take action for recovery of the amounts, which led to misappropriation of government money, amounting to ₹ 43.62 lakh, in addition to unfruitful expenditure (in the form of advance) of ₹ 18.60 lakh, on incomplete works.

The matter was reported to Government (July 2021) and reminder was issued on 21 September 2021. Reply is awaited.





**PART – B**  
**URBAN LOCAL BODIES**





**CHAPTER – III**

**An Overview of the Functioning of the  
Urban Local Bodies in Bihar**





**Chapter – III**  
**An Overview of the Functioning, Accountability Mechanism and  
Financial Reporting issues of Urban Local Bodies**

**3.1 Introduction**

The Seventy-Fourth Constitutional Amendment Act (CAA), 1992 envisaged creation of local self-government for population of urban areas. Accordingly, Municipalities were provided constitutional status for governance. The States were required to entrust Municipalities with powers, functions and responsibilities, to enable them to function as institutions of local self-government and carry out the responsibilities conferred upon them, including 18 subjects listed in the Twelfth Schedule of the Constitution.

Article 243 W of the Constitution provides that the Legislature of a State may, by law, endow Municipalities with such powers and authority, as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, with respect to preparation of plans for economic development and social justice and performance of functions and implementation of schemes, as may be entrusted to them.

The Government of Bihar (GoB) enacted the Bihar Municipal Act (BM Act), 2007, by repealing the Bihar and Orissa Municipal Act, 1922, wherein Municipalities were devolved functions and responsibilities and powers to carry out these functions. The BM Act, 2007, was enacted to consolidate and amend the laws relating to Municipal Governments in the State, in conformity with the Seventy-Fourth CAA. Further, the GoB framed the Bihar Municipal Accounting Rules (BMAR), 2014, the Bihar Municipal Accounting Manual (BMAM) and the Bihar Municipal Budget Manual, for preparation and maintenance of accounts and budget by the Municipalities of the State, from the Financial year 2014-15.

**3.1.1 Urban Local Bodies (ULBs) in Bihar**

Sections 7 and 20 of the BM Act, 2007, lay down the criteria for classification of municipal areas. As per the 6<sup>th</sup> SFC Report (March 2020), there were 142 ULBs in the State. As per Section 3 of the BM Act, 2007, the State Government may specify an area to be a larger, medium or a transitional urban area subject to fulfillment of certain conditions<sup>46</sup> and non-agricultural population in the areas being seventy five *per cent* or more.

Further, the GoB changed (May 2020) the criteria of percentage of non-agricultural population for classification of an area into an urban area, by enactment of the Bihar Municipal Amendment (Act), 2020. As per amended Act, an area may be classified as an urban area, if the population of long-term and short-term agricultural workers is less than 50 *per cent* of total workers in the area. As a result, the number

<sup>46</sup> (a) Population in the case of a larger urban area should be two lakh or more; (b) For a medium urban area, population should be forty thousand or more but less than two lakh; and (c) in case of a transitional area, population should be twelve thousand and more but not more than forty thousand.

of ULBs in the State increased from 142 to 258 (with constitution of 116 new Municipalities). Further, the status of 32 Nagar Panchayats and five Municipal Councils was upgraded to Municipal Councils and Municipal Corporations respectively. Due to the classification of rural areas into urban areas, 0.46 crore rural population was added to the existing urban population and this raised the urbanization rate in the State, from 11.3 per cent to 15.75 per cent of the total population of the State. The number and class of ULBs, on the basis of population as per Census 2011 and after constitution of new Municipalities by the GoB, as of March 2021, are given in **Table 3.1** below:

**Table 3.1: Classification of ULBs**

Category of ULBs	Grade	Population	No. of ULBs
<b>Municipal Corporation</b>	Larger urban area	More than two lakh	18
<b>Municipal Council</b>	Medium urban area	More than 0.40 lakh and less than two lakh	83
<b>Nagar Panchayat</b>	Transitional urban area	More than 0.12 lakh and up to 0.40 lakh.	157
<b>Total</b>			<b>258</b>

(Source: Information provided by UD&HD)

On the basis of population, the Municipal areas of the State were divided into 3371 Wards that were determined and notified by the State Government. There were a minimum of 10 Wards and maximum of 75 Wards, across different classes of Municipalities in the State.

### 3.1.2 State Profile

The State of Bihar is among the least urbanized States in the country. As per Census 2011, the urban population of Bihar was 1.64 crore, constituting 15.75 per cent of the total population (10.41 crore) of the State, while the national average for urbanization stood at a much higher level, at 31.2 per cent. Although, Bihar has 8.6 per cent of India's total population, yet only 4.35 per cent of the total urban population of India lived in urban areas of Bihar and only one city (Patna) of the State had a population of more than one million. The comparative demographic and development statistics of the State are given in **Table 3.2** below:

**Table 3.2: Important statistics of the State**

Sl. No.	Indicators	Unit	State	All over India
1	Urban Population	Million	16.36	377.11
2	Urban Population Density	Person per Sq. km	4,811	3,836
3	Urban Literacy	Per cent	76.86	84.11
4	Urban Sex ratio	females per thousand males	895	900
5	Urban poverty level	Per cent	31.2	13.7
6	Municipal per capita own revenue	₹	58	2,540
7	Number of ULBs	Number	258	4,771
8	Number of districts	Number	38	737

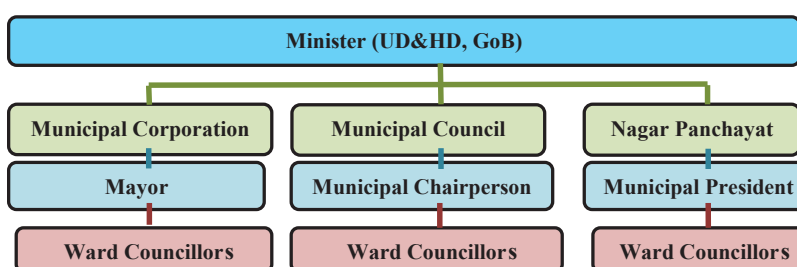
(Source: Sl. no. 1 to 6 from Census 2011 and Sl. Nos. 7 & 8 from Local Government Directory, GoI)

### 3.2 Organisational Set-up of ULBs

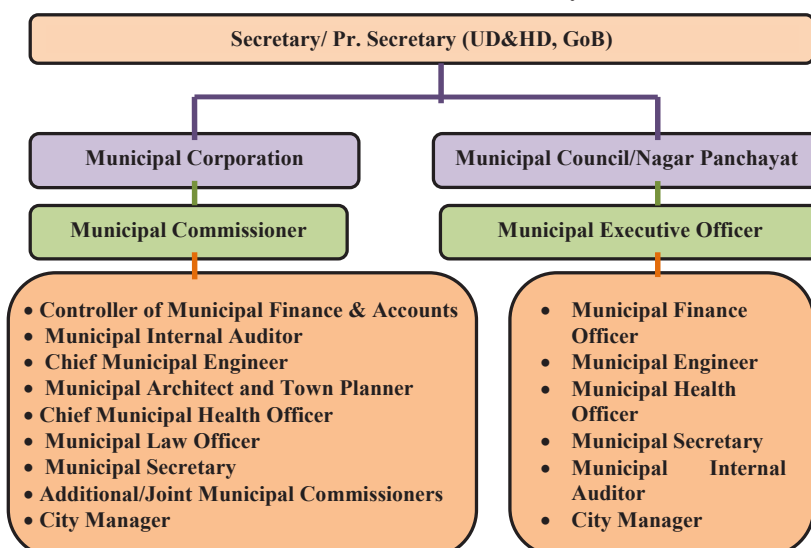
The ULBs were under the administrative control of the Urban Development and Housing Department (UD&HD), GoB, headed by the Principal Secretary/ Secretary. The Municipal Commissioner-cum-Chief Executive Officer was the executive head of the Municipal Corporation while the Municipal Council and Nagar Panchayat were headed by Executive Officers appointed by the State Government. The Chief Municipal Officer was the Principal Executive Officer of the Municipality and all officers and other employees of the Municipality were subordinate to him. Executive functions for carrying out the administration of the Municipality were vested in the Chief Municipal Officer. Joint/ Additional/ Deputy Municipal Commissioners were appointed in Municipal Corporation to assist the Municipal Commissioner. A City Manager was also appointed, on contractual basis, in the Municipal Corporation and Municipal Council/ Nagar Panchayat, to assist the Chief Municipal Officer.

The ULBs had an Empowered Standing Committee (ESC) comprising of Councillors elected by the people and headed by the Mayor (for Municipal Corporations), the Chairperson (for Municipal Councils) and the Municipal President (for Nagar Panchayats), elected among Ward Councillors, to preside over the meetings of the ESC. The Chief Councillor was the head of the ESC and the executive power of a Municipality was exercised by the ESC. The organizational structure of ULBs is presented in **Charts 3.1** and **3.2** below:

**Chart 3.1: Elected Body**



**Chart 3.2: Administrative Body**



(Source: Section 36 of BMA, 2007, Sankalp (UD&HD)-1435 dated- 5 March 2019 and Website: [www.urban.bih.nic.in](http://www.urban.bih.nic.in))

### 3.3 Functioning of ULBs

#### 3.3.1 Powers of the State Government

The BM Act, 2007 entrusts the State Government with certain powers so as to enable it to monitor proper functioning of the ULBs. The ULBs were devolved some powers for delivery of services as stipulated in the BM Act, 2007, but decisions on all key issues were being taken by the State Government. A brief summary of the powers of the State Government is given in **Table 3.3** below:

**Table 3.3: Powers of the State Government**

Authority	Powers of the State Government
<b>Sections 3 and 6</b>	<b>Constitution of Municipal Area:</b> The State Government may, after making such enquiry as it may deem fit, and having regard to the population of any urban area, density of population therein, the revenue generated for the local administration of such area, may, by notification constitute such large urban area, city, town or transitional area or any specified part thereof as a municipal area under this Act.
<b>Section 44</b>	<b>State Municipal Vigilance Authority:</b> The State Government shall appoint <i>Lok Prahari</i> to inquire into any allegation of corruption, misconduct, lack of integrity or any kind of malpractice or mal-administration or misdemeanor of Chief/Deputy Chief Councillor/Officers and other employees of the municipality.
<b>Sections 65 and 66</b>	<b>Power to inspect office, call for the records etc.:</b> The State Government may depute officer to inspect any office or call for the records under the control of the ULBs.
<b>Section 87</b>	<b>Preparation of Accounting Manual:</b> The State Government shall prepare, update and maintain a Manual viz., the Bihar Municipal Accounting Manual for implementation of accrual based double entry accounting system containing details of all financial and accounting matters and procedures in Municipalities.
<b>Section 419</b>	<b>Power to make Rules:</b> The State Government may, by notification, make rules to carry out the purpose of BM Act, 2007 subject to approval by the State Legislature.
<b>Sections 421 and 423</b>	<b>Power to make regulations:</b> The Municipality may make regulations for the purpose of giving effect to the provisions of BM Act, 2007 subject to approval of the State Government.
<b>Section 487</b>	<b>Removal of difficulties:</b> If any difficulty arises in giving effect to the provisions of BM Act, 2007, the State Government may do anything necessary to remove such difficulty.

(Source: BM Act, 2007)

#### 3.3.2 Devolution of functions, funds and functionaries

##### (i) Devolution of Functions

The Seventy-Fourth CAA, 1992, enables the ULBs to perform functions relating to 18 subjects referred to in the Twelfth Schedule of the Constitution. Accordingly, the GoB made provisions in the BM Act, 2007, for functions relating to 17 out of 18 subjects (except fire services), which were to be carried out by the ULBs (*Appendix 3.1*). However, it was observed that only 13 out of

17 functions were being performed by ULBs, while the remaining four<sup>47</sup> (and including fire service) functions/activities were still being performed by the concerned Departments of the GoB.

Further, the 13<sup>th</sup> FC had referred the recommendation made by the 2<sup>nd</sup> Administrative Reforms Committee, on activity mapping for ULBs, wherein a number of steps were suggested for adherence by the State Governments, which included a clear delineation of functions for each tier, through activity mapping and passing of a framework law to formalize the relations between the State and local governments. However, as per the sixth SFC report, activity mapping for clarification of the roles and responsibilities, which were to be carried out by ULBs, was not done.

In regard to the devolution of functions, the Department stated (August 2021) that the subjects referred to in the Twelfth schedule of the **Constitution of India were provisioned in BM Act, 2007**, and the same were to be performed by ULBs. However, various functions of ULBs, along with fire services, were being performed at the level of concerned Departments of the GoB, due to lack of manpower and shortage of infrastructure at the ULB level.

Thus, the functions of ULBs overlapped with those of the functional Departments of the GoB and, even after a lapse of more than 28 years of the 74<sup>th</sup> CAA, ULBs were not able to carry out their entire mandated functions.

#### (ii) Devolution of Funds

Section 72(3) of the BMA, 2007, provided that the State Government had to provide grants to Municipalities, for implementation, in full or in part of any scheme included in the Annual Development Plan of the Municipalities. The Central/State Government had provided funds under different heads, such as Central Finance Commission (CFC), State Finance Commission (SFC) and State Plan, Scheme specific grants etc., to assist the ULBs in carrying out their mandated functions.

Details of funds, released during the years 2015-20, under CFC, SFC and State Plan and for implementing various centrally/state sponsored schemes, are given in **Table 3.4** below:

**Table 3.4: Release of grants under CFC, SFC and CSS**

Sl. No.	Grant Head	Period	Funds released (₹in crore)
1.	14 <sup>th</sup> FC	2015-2020	2228.50
2.	5 <sup>th</sup> SFC	2015-2020	5139.07
3.	Smart City	2015-2020	952.00
4.	Swachh Bharat Mission(SBM)	2015-2020	1009.36
5.	Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	2015-2020	633.29
6.	National Urban Livelihoods Mission (NULM)	2015-2020	197.95

(Source: 6<sup>th</sup> SFC report)

<sup>47</sup> (1) Urban forestry, protection of the Environment and promotion of ecological aspects (2) Safeguarding the interests of weaker sections of society including the handicapped and mentally retarded (3) Promotion of cultural, educational and aesthetic aspects and (4) Cattle pounds; prevention of cruelty to animals.

Details regarding short receipt/release, non-release and delayed release of grants under the 14<sup>th</sup> FC and 5<sup>th</sup> SFC, are discussed in the succeeding paragraphs (3.8.2 and 3.8.3) of the report.

It was observed that ULBs in the State had generated ₹ 1,214.57 crore from their own resources during 2015-20, while their establishment expenditure was ₹ 3,002.52 crore during the aforesaid period, which clearly indicated that ULBs were substantially dependent on grants from the government to meet even their establishment expenditure and they were not able to carry out the mandated functions from their own resources. Though the SFCs had recommended various measures<sup>48</sup> to be taken by the State Government as well as by the ULBs, to augment collection of revenue from their own resources and become self-reliant, these recommendations were not implemented satisfactorily.

### ***(iii) Devolution of functionaries***

Section 36 of BM Act, 2007, provided a number of posts for ULBs, but most of these posts were vacant. As per information furnished by the Department, as of August 2021, 2,982 posts were sanctioned for ULBs. Out of them, only 599 posts were filled up and 2,383 posts (80 *per cent* of the total posts) were vacant. The Status of sanctioned posts and persons-in-position in ULBs, has been given in **Appendix 3.2**.

Further, Executive/ Supervisory posts under various sections (Sanitation & Waste Management /Welfare & Registration/ Revenue & Audit/ Town Planning Section) were hundred *per cent* vacant while 84 *per cent* posts of City Manager, who played a very important role in carrying out the functions of ULBs, were still vacant. Vacancies in technical posts ranged between 15 *per cent* and 100*per cent*. Thus, there was an acute shortage of manpower, which adversely affected the functioning of ULBs.

The Ministry of Urban Development (MoUD) had suggested (2014) a model Municipal cadre for functioning of ULBs and the 5<sup>th</sup> SFC had recommended that the Model Staffing Pattern, as suggested by the MoUD, should be adopted in the State. As per the Model Staffing Pattern, for different types of Municipalities, 5,613 posts were recommended. However, the GoB sanctioned 3,194 posts only. The sixth SFC observed that the manpower at the disposal of the ULBs in the State, was grossly inadequate for effectively performing the mandated functions.

## **3.4 Formation of various Committees**

### ***3.4.1 Empowered Standing Committees***

Section 21 and 22 of the BM Act, 2007, provided that, in every Municipality, there would be an ESC and the executive powers of a Municipality would be vested in the ESC. The Chief Councillor would exercise such powers and

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<sup>48</sup> (i) Create a State-level Urban Regulator for setting user charges, standards for services, performance etc. (ii) Create a State Property Tax Board to optimize assessment, collection and recovery of property tax (iii) e-Tendering/ e-Auction be used to maximize revenue from properties and also from sairats and the existing non-transparent tendering process replaced. (iv) ULBs must start levying User Charges for Water Supply, Sewerage, SWM services, etc. to meet at least O&M cost of the services. (v) Surcharge of 2.5 per cent be levied on electricity consumption on behalf of the ULBs to cover electricity charges. (vi) All ULBs to prepare comprehensive Revenue Enhancement Plan etc.

functions, as delegated to him/her by the ESC. The prescribed composition of the ESCs is shown in **Table 3.5** below:

**Table 3.5: Empowered Standing Committees**

Category of ULBs	Presiding Officer	Prescribed composition of ESC	Remarks
<b>Municipal Corporation</b>	Mayor	Mayor, Deputy Mayor and seven other Councillors	Other members of ESC shall be nominated by the Chief Councillor from amongst the elected Councillors within 7 days of his entering the office.
<b>Class ‘A’ or ‘B’ Municipal Council</b>	Municipal Chairperson	Municipal Chairperson, Municipal Vice-Chairperson and five other Councillors	
<b>Class ‘C’ Municipal Council</b>	Municipal Chairperson	Municipal Chairperson, Municipal Vice-Chairperson and three other Councillors	
<b>Nagar Panchayat</b>	Municipal President	Municipal President, Municipal Vice-President and three other Councillors	

(Source: Section 21 of the BM Act, 2007)

The ESC was collectively responsible to the Municipal Corporation, the Municipal Council and the Nagar Panchayat, as the case may be. On constitution of the ESC, the UD & HD replied (August 2021) that ESCs had been constituted in all Municipalities in the State.

### 3.4.2 District Planning Committee

Article 243 ZD of the Constitution envisaged formation of a District Planning Committee (DPC) to consolidate the plans prepared by both the Panchayats and the Municipalities in the district and to prepare a Draft Development Plan (DDP), for the district as a whole. Accordingly, the GoB made provisions in BM Act, 2007 and framed the Bihar District Planning Committee and Conduct of Business Rules, 2006. Section 275 of BM Act, 2007, provided that all development plans to be executed by the ULBs, should be included in the DDP of the district, consolidated by the DPCs and approved by the State Government.

Audit observed that, though the elections of Panchayats and Municipalities were held in the years 2016 and 2017, respectively, the DPCs were re-constituted (February 2018) with delays of one to two years. Thus, DPCs did not exist during the period between 2016 and 2017. Further, even after constitution, DPC meetings were not held in four test-checked districts<sup>49</sup>, till March 2021. As a result, the plans for execution of developmental works approved by the Municipalities could not be consolidated at the district level, and the DDP for the district could not be prepared and necessary scrutiny of plan could not be done. Further, the State was unaware of the regional plans, which had an important relation with the process of the development of the districts.

### 3.4.3 Municipal Accounts Committee

Section 98 of the BM Act, 2007, provides that the Municipality shall, at its first meeting in each year or as soon as may be at any meeting subsequent thereto, constitute a Municipal Accounts Committee. The important functions of the Committee were as follows;

<sup>49</sup> Darbhanga, East Champaran (Motihari), Saran and Siwan



- to examine the accounts of the Municipality showing the appropriation of sums granted to the Municipality for its expenditure and the annual financial accounts of the Municipality;
- to examine and scrutinize the report on the accounts of the Municipality by the Auditor appointed under BM Act, 2007; and
- to review and approve the Action Taken Report following each report by the Auditor and the Internal Audit.

In regard to the constitution of the Municipal Accounts Committee in ULBs, the Project Officer-cum-Additional Director, UD&HD, stated (August 2021) that Municipal Accounts Committees had not been constituted in ULBs. The reason for non-constitution of the Municipal Accounts Committees was not stated by the Department.

Thus, due to non-constitution of Municipal Accounts Committees, necessary scrutiny of accounts of Municipalities could not be ensured.

#### **3.4.4 Subject Committee**

Rule 32 of BMA 2007, provided that a Municipal Corporation or a Class 'A' Municipal Council, may from time to time constitute Subject Committees, consisting of Councillors, to deal with matters such as (a) water-supply, drainage and sewerage and solid waste management; (b) urban environment management and land use control; and (c) slum up-gradation and basic services for urban poor. The recommendations of a Subject Committee were to be submitted to the ESC, for its consideration.

The Project Officer-cum-Additional Director, UD&HD, stated (August 2021) that Subject Committees were not constituted. The reason for non-constitution of the Subject Committees was not stated by the Department.

Thus, due to non-constitution of Subject Committees, all functions/matters relating to the Committees remained unfulfilled.

#### **3.4.5 Wards Committee**

Section 30 of BMA, 2007, provided that every Municipal Corporation, having a population of three lakh or more, may at its first meeting after the election of Councillors thereto, or as soon as may be thereafter, group the Wards of the Corporation in such manner that each group consists of not less than three Wards, and constitute a Wards Committee for each such group. Each Wards Committee was to consist of the Councillors elected from the Wards constituting the group.

Within the local limits of the group of Wards and subject to the general supervision and control of the ESC, a Ward Committee was expected to discharge the functions of the Municipality, relating to the provision of supply-pipes and drainage and sewerage connections to premises, removal of accumulated water on the streets or public places, due to rain to otherwise, ensure collection and removal of solid waste, disinfection, provision of health immunization services, slum services, provision of lighting etc.

In this regard, the Project Officer-cum-Additional Director, UD&HD, replied (August 2021) that Wards Committees were not constituted in the ULBs. The

Sixth SFC had also observed that Wards Committees were not functional in the State. The reason for non-constitution of Wards Committee was not stated by the Department.

### 3.5 Audit Arrangement

#### 3.5.1 Primary Auditor

Section 91(1) of the BM Act, 2007, provides that the accounts contained in the financial statements, including the accounts of special funds, if any, and the balance sheet, shall be examined and audited by the Director, Local Fund Audit (DLFA), or his equivalent authority or auditor appointed by the State Government from the panel of professional Chartered Accountants. Further, as per Section 91(2) of the BM Act, 2007 (amended in 2014), the CAG of India shall provide Technical Guidance and Support (TGS) over proper maintenance of accounts and audit of the accounts of ULBs and an Annual Report, prepared based on the TGS, shall be placed before the ESC of the Municipalities. Further, the CAG may, at his discretion, place the report before the State Legislature.

The State Government authorized (November 2007) the Examiner of Local Accounts (ELA) of the office of the Accountant General (Audit), Bihar to work as Director Local Fund Audit (DLFA). Accordingly, audit of ULBs was conducted by the ELA until adoption (December 2016) of the TGS system for audit of the accounts of Local Bodies (LBs).

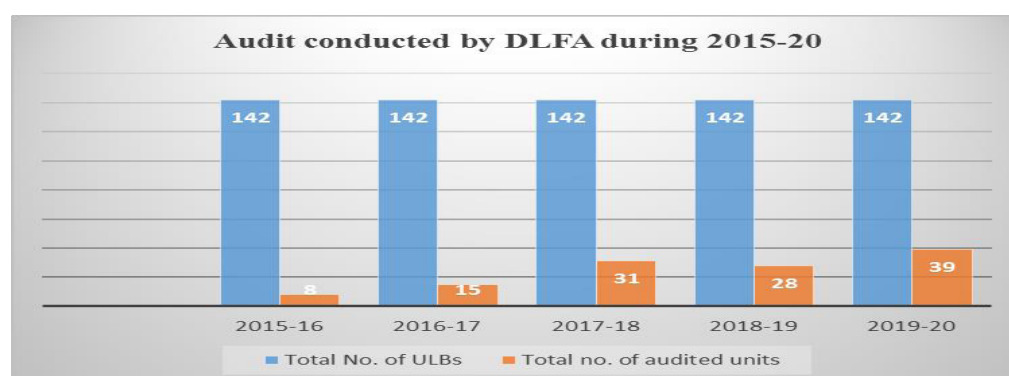
Further, in pursuance of the CFC, the State Government had notified (June 2015) the establishment of a Directorate of Local Fund Audit, headed by the Chief Controller of Accounts -cum- DLFA, under the Finance Department, GoB, to conduct the audit of LBs, which had been functioning since 11 June 2015. The terms and conditions for 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 initiated in the State, by the CAG, since January 2017. Consequently, the DLFA started functioning in the role of Primary External Auditor since January 2017.

The DLFA had conducted audit of the accounts of 121 ULBs only during the financial years 2015-16 to 2019-20, as detailed in **Table 3.6** and **Chart 3.3** below:

**Table 3.6: Audit conducted by DLFA**

Financial year	Total No. of ULBs	Audit conducted				Percentage of audit conducted
		Municipal Corporation	Municipal Council	Nagar Panchayat	Total	
2015-16	142	0	7	1	8	6
2016-17	142	11	4	0	15	11
2017-18	142	0	16	15	31	22
2018-19	142	0	15	13	28	20
2019-20	142	7	18	14	39	27
<b>Total</b>		<b>18</b>	<b>60</b>	<b>43</b>	<b>121</b>	

(Source: Information furnished by DLFA)

**Chart 3.3: Audit conducted by DLFA**

It is evident from the table above that the DLFA had audited a very low number of ULBs units, ranging from 6 *per cent* to 27 *per cent* of the total number of ULBs in the State, during 2015-20. The DLFA stated that the low coverage of units was due to acute shortage of manpower with the Directorate of Local Fund Audit.

- **Poor response to Inspection Reports (IRs) issued by DLFA**

Audit observed that the status of compliance of audit paragraphs, contained in the IRs, was not satisfactory, as evident from the huge number of audit paragraphs contained in the IRs, which had remained outstanding for settlement, as of August 2021, as shown in **Table 3.7** below:

**Table 3.7: Outstanding paragraphs in ULBs for the financial years 2014-15 to 2020-21**

(₹ in crore)

Financial year	No of IRs issued	No. of paras in IRs	Amount involved	No of paras settled	Amount of settlement	No of Paras outstanding	Money value of paras outstanding
2014-15 To 2018-19	27	404	119.44	2	0.01	402	119.43
2019-20	6	112	556.52	2	0.06	110	556.46
2020-21	4	64	29.42	0	0	64	29.42
<b>Total</b>	<b>37</b>	<b>580</b>	<b>705.38</b>	<b>4</b>	<b>0.07</b>	<b>576</b>	<b>705.31</b>

(Source: Information furnished by the DLFA)

It is evident from the table above that, out of a total 580 paragraphs contained in 37 IRs, issued by the DLFA for the FYs 2014-15 to 2020-21, only four paragraphs (0.69 *per cent*) were settled, while 576 paragraphs involving an overall amount of ₹ 705.31 crore were pending for settlement, as of August 2021. Reasons for the low settlement of audit paragraphs were not stated by the DLFA.

The large number of audit paragraphs pending for settlement indicated weak internal control in ULBs and inaction on the part of the authorities concerned in ensuring compliance of audit paragraphs.

### 3.5.2 Audit by the Comptroller and Auditor General of India

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 LBs and his Annual Technical Inspection Report (ATIR), as well as Annual Report of the DLFA, must be placed before the State Legislature.

The Finance Department, GoB, intimated (December 2015) that the State Government had accepted the Standard Terms and Conditions under the Regulations on Audit and Accounts, 2007, for audit of LBs under TGS arrangement. Consequently, audit under the TGS arrangement commenced in the State from January 2017. The AG (Audit) Bihar had accordingly, conducted audit of 86 ULBs, during 2017-20, under TGS arrangement.

Further, the DLFA conducted audit of the accounts of 67 ULBs units during 2018-20 but did not forward any IR to AG (Audit) for TGS till July 2021, despite requests being made (Various letters were issued to the DLFA from July 2018 to till January 2022) to provide IRs for TGS. Thus, technical guidance and quality improvement in IRs could not be suggested by AG (Audit), Bihar and the objective of providing TGS to the audit of LBs conducted by the DLFA could not be fulfilled.

## 3.6 Response to Audit Observations

### 3.6.1 Poor response to IRs issued by the AG (Audit)

Consequent upon completion of field audit, IRs, containing audit findings, were to be sent to the audited entities with a copy to the concerned Department of the GoB. The Municipal Commissioners/Executive Officers of the audited entities concerned were required to respond to observations contained in the IRs and submit compliance reports within three months from the date of receipt of the IRs.

Audit observed that Municipal Commissioners/Executive Officers did not take effective steps to furnish compliance of the audit observations contained in the IRs, which was evident from increasing number of outstanding audit paragraphs, year by year. The status of settlement of audit paragraphs for the last five years, as of September 2021, is given in **Table 3.8** and in **Chart 3.4** below:

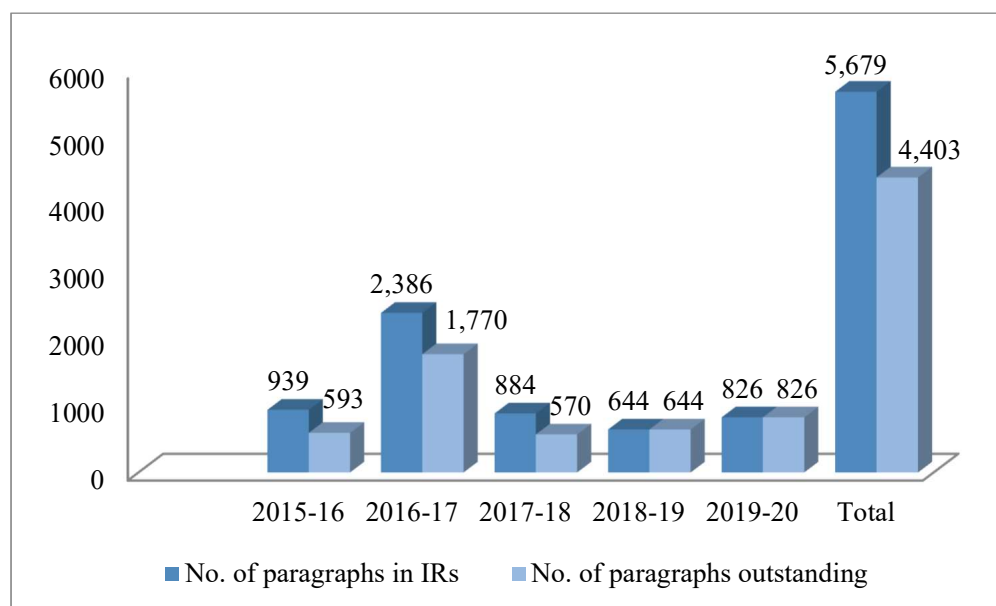
**Table 3.8 Outstanding audit paragraphs for the last five financial years (FYs 2015-16 to 2019-20)**

(₹ in crore)

Financial year	No. of IRs	No. of paragraphs in IRs	Amount involved	No. of paragraphs settled	Amount of settlement	No. of paragraphs outstanding	Money value of paragraphs outstanding
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2015-16	33	939	68.5	346	3.27	593	65.23
2016-17	86	2,386	377.31	616	0.66	1,770	376.65
2017-18	32	884	957.61	314	3.36	570	954.25
2018-19	31	644	383.46	0	0	644	383.46
2019-20	27	826	731.90	0	0	826	731.90
<b>Total</b>	<b>209</b>	<b>5,679</b>	<b>2,518.78</b>	<b>1,276</b>	<b>7.29</b>	<b>4,403</b>	<b>2,511.49</b>

(Source: Inspection Reports of ULBs)

**Chart 3.4: Outstanding audit paragraphs for the financial years 2015-16 to 2019-20**



It is evident from the Table above that, out of total 5,679 audit paragraphs contained in 209 IRs, only 1,276 paragraphs (22 per cent) were settled whereas, 4,403 paragraphs involving ₹ 2,511.49 crore remained outstanding till September 2021.

The large number of paragraphs outstanding for settlement indicated lack of efforts by the Municipal authorities in furnishing compliance to audit observations. Lack of action on compliance of IRs was fraught with the risk of perpetuating serious financial irregularities pointed out in these reports.

### **3.6.2 Compliance to the ELA's and CAG's Annual Audit Reports**

In the State, the report of the ELA was prepared for the financial years 2005-06 to 2013-14. Thereafter, CAG's Audit Reports on LBs, for the financial years 2014-15 and 2015-16, were prepared.

- **ELA's Annual Report**

The Finance Department, GoB, constituted (March 2010) three-tier of Committees viz. High Level, Departmental Level and District Level, for review/ compliance of the Annual Audit Reports prepared by the ELA. The District Level Committee<sup>50</sup> had the responsibility of ensuring compliance of audit paragraphs/ reports received by the ULBs in that district. The Department Level Committee<sup>51</sup> had to review the status of compliance made by the District Level Committees while the High Level Committee<sup>52</sup> had to meet once in six months to review the functioning of the District Level and Department Levels Committees.

<sup>50</sup> Headed by the District Magistrate/Deputy Development Commissioner

<sup>51</sup> Headed by the Principal Secretary/Secretary of the UD&HD, GoB

<sup>52</sup> Headed by the Principal Secretary to the Finance Department, GoB and the Principal Accountant General (Audit), Bihar as a member.

It was, however, observed that, during the financial year 2019-20, no District Level Committee meeting was held, (against the proposed 84 meetings). As such, the audit paragraphs contained in the ELA's report remained unsettled. Further, no meeting of the Department Level, or High Level Committee, was held during 2019-20. The last High Level Committee meeting and Department Level Committee meetings were held in August 2013 and July 2015, respectively.

Thus, the purpose of constitution of these three level Committees was defeated and the audit observations contained in the ELA's Annual Audit Report remained unattended.

- **Compliance to C&AG's Report on LBs**

As per the provisions contained in Section 91 (2) of the BM Act, 2007, the Annual Report on account of ULBs, prepared by the CAG, shall be laid on the both Houses of State Legislatures. However, as per amendment in the Act in the year 2014, it was provided that the CAG of India shall provide TGS over the proper maintenance of accounts and audit thereof of ULBs.

The first CAG's Report on LBs, GoB, for the year ended March 2015, was tabled in the State Legislature on 4 April 2016. Five paragraphs of the report were discussed in 12 meetings of Public Accounts Committee held during June 2016 to June 2021 but no audit observation was settled till June 2021.

Further, the CAG's Report on LBs, for the financial year ended March 2016, was tabled in the State Legislature on 23 August 2017.

## Accountability Mechanism and Financial Reporting Issues

### 3.7 Accountability Mechanism

#### 3.7.1 Lok Prahari (Ombudsman)

Section 44(1) of the BM Act, 2007, provides for appointment of *Lok Prahari* (Ombudsman) for looking into any allegations of corruption, lack of integrity, malpractice *etc.*, of the authorities of the ULBs. The qualification, terms and conditions and tenure of appointment and the powers and duties of the *Lok Prahari* (Ombudsman) shall be as may be prescribed by the Government. The 13<sup>th</sup> FC and the 5<sup>th</sup> SFC had also recommended putting in place a system of independent LB *Lok Prahari* (Ombudsman). Further, a letter was issued (February 2018) by the Ministry of Housing & Urban Affairs, GoI, to the Chief Secretary, GoB, regarding appointment of "*Lok Prahari* (Ombudsman)" for the ULBs in Bihar.

On the issue of non-appointment of *Lok Prahari*(Ombudsman), the UD&HD stated (August 2021) that appointment of *Lok Prahari* was still under process.

Thus, despite provision in BM Act 2007, and recommendations made by the Central and State Finance Commissions, appointment of *Lok Prahari* (Ombudsman) was not done.

### **3.7.2 Social Audit**

The basic objective of Social Audit is to ensure public accountability in the implementation of projects, laws and policies, through public participation. The 5<sup>th</sup> SFC had recommended that Social Audit was to be conducted in ULBs as an accountability measure and Social Audit for slum and poverty alleviation programmes should be a must. The sixth SFC also recommended that the practice of Social Audit may be introduced in ULBs. However, Social Audit of schemes implemented by ULBs was not conducted. The UD&HD did not furnish the reason for non-conduct of Social Audit.

Thus, despite recommendation of SFCs, Social Audit was not carried out. As a result, public accountability in the implementation of projects, laws and policies, through public participation, could not be ensured by ULBs.

### **3.7.3 Property Tax Board**

Section 138(A) of the BM Act, 2007, provides for putting in place a State level Property Tax Board, for putting in place an independent and transparent procedure, to optimize the assessment, collection and recovery of Property Tax. The 13<sup>th</sup> FC had also recommended the setting up of a State level Property Tax Board, to assist ULBs in putting in place an independent and transparent procedure for assessing Property Tax.

The UD&HD, GoB had framed and notified (May 2013) the Bihar Property Tax Board Rules, 2013. The roles and responsibilities of the Property Tax Board were (a) to undertake directly or through an agency, enumeration of all lands and buildings in each municipality, once in five years to widen the tax net and maintain an updated database of properties in the ULBs in the State (b) suggest to the State Government, methods and procedures for review and updating of the rental values or market values of lands and buildings every five years or earlier (c) suggest measures for making the Holding Tax system more buoyant and (d) to review and evaluate the performance of each ULB, in regard to assessment of land from Holding Tax against a pre-determined target and suggest improvements on a continuous basis etc.

On the issue of constitution of the Property Tax Board, the UD&HD replied (August 2021) that the Property Tax Board had not been constituted. The reply has to be seen in context of the Department had stated, in October 2016, that constitution of the Property Tax Board was under process.

Thus, due to non-constitution of the Property Tax Board, even after a lapse of more than eight years since the framing of the Property Tax Board Rules, widening of the tax net, and collection and recovery of Property Tax in ULBs could not be optimized. Further, the performance of each ULB could not be evaluated on a continuous basis as had been envisaged.

### **3.7.4 Service Level Benchmarks**

The 13<sup>th</sup> FC recommended that State Government must gradually put in place standards for delivery of all essential services provided by LBs. State Governments were to notify, or cause all the Municipalities to notify by the

end of a fiscal year (31 March), the service standards for four<sup>53</sup> service sectors, to be achieved by them by the end of the succeeding fiscal year. Accordingly, the UD&HD had notified (March 2011) Service Level Benchmarks (SLBs) for services to be provided by the ULBs.

The Department provided data relating to achievement against the target, in respect of one indicator under coverage of water supply, one indicator under coverage of toilets and partial data of coverage of sewerage network only. Data showing the progress in respect of other sectors and indicators was not made available.

From analysis of the data, it was observed that achievement, against the target set by the Department in respect of the indicator pertaining to coverage of water supply, in Municipal Corporations, Municipal Councils and Nagar Panchayats, ranged between nil (Munger) and 180 *per cent* (Biharsharif); 21 *per cent* (Farbisganj) and 153 *per cent* (Bakhtiyarpur); and nil (Harnaut and Rafiganj) and 174 *per cent* (Janakpur Road), respectively. Further, achievement in respect of coverage of toilets in Municipal Corporations, Municipal Councils and Nagar Panchayats ranged between 77 *per cent* and 100 *per cent*, 86 *per cent* and 100 *per cent* and 85 *per cent* and 100 *per cent*, respectively (*Appendix 3.3*).

Further, achievement of more than 100 *per cent* of the target indicated that the target has been set without proper survey of the households and their requirements. However, the Department stated that with the passage of time, the number of households under the municipal areas had increased and, therefore, coverage was shown more than the target set. In respect of coverage of the storm water drainage network, the Department stated that construction was in progress.

Thus, even after a lapse of more than 10 years of publishing of the SLBs, all ULBs did not achieve the targets in regards to the indicators under four service sectors.

### **3.7.5 Fire Hazard Response**

As per the 13<sup>th</sup> FC's recommendation, all Municipal Corporations with a population of more than one million (2001 census) must put in place a Fire Hazard Response and Mitigation Plan for their respective jurisdictions. In Bihar, the population of only one ULB (Patna Municipal Corporation) was more than one million, as per the 2011 census.

The UD&HD, GoB, had notified (March 2011) the Fire Hazard Response and Mitigation Plan for the Patna Municipal Corporation (PMC). On functioning & implementation of the Fire Hazard Response and Mitigation Plan in PMC, the Project Officer-cum-Additional Director, UD&HD stated (August 2021) that the plan was still to be implemented by the PMC.

### **3.7.6 Submission of Utilisation Certificates**

Rule 342 (1) of the Bihar Financial Rules (BFR) provides that Utilisation Certificates (UCs) of the grants were to be submitted by the grantee entities

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<sup>53</sup> *Water supply, Sewerage, Storm water drainage and Solid waste management*



within 18 months from the date of receipt of the grants. Instructions contained in the allotment letters of the funds released to the ULBs also required furnishing of the UCs to the State Government in a timely manner, to avoid delay in further release of grants.

The status of year wise release of grants to ULBs during the financial years 2015-16 to 2019-20 and the UCs pending as of January 2020, is given in **Table 3.9** below:

**Table-3.9: Percentage of pending UCs**

(₹ in crore)

Financial Year	Grant Released	Outstanding UCs	Percentage of Pending UCs
2015-16	1,826.28	990.52	54
2016-17	3,135.50	936.96	30
2017-18	1,794.52	1,626.61	91
2018-19	2,892.56	2,286.54	79
2019-20	1,929.25	1,899.16	98
<b>Total</b>	<b>11,578.11</b>	<b>7,739.79</b>	<b>67</b>

{Source: Finance accounts of AG (A&E)}; (NA: Not available)

It is evident from the table above that 30 per cent to 98 per cent of UCs were pending in respect of grants released during the FYs 2015-16 to 2019-20. The Assistant Director-cum-Joint Secretary, UD & HD replied (July 2021) that camp had been organized (January 2021 and February 2021), by the Department, to obtain UCs from the ULBs and the same process would be adopted for obtaining UCs for remaining amounts.

The huge pendency of UCs, for a long period indicated weak internal control and a poor monitoring mechanism and was fraught with the risk of mis-utilisation of funds.

### 3.7.7 Internal Audit and maintenance of accounts

#### • Internal Audit

The Department had engaged (April 2016) 17 CAs for internal audit of the accounts of 140 Municipalities for the years 2014-17. Further, during the financial years 2017-18 to 2019-20, six CA firms were engaged (January 2019) by the Department, for audit. Audit of the accounts of ULBs was to be completed till September 2020. The status of audit by CAs, as of September 2021, is given in **Table 3.10** below:

**Table 3.10: Units audited and reports submitted**

Sl. No.	Financial Year	Audit to be conducted	Audit completed	Reports submitted by the CA firms
1.	2015-16	140	140	138
2.	2016-17	140	140	138
3.	2017-18	140	140	123
4.	2018-19	140	140	122
5.	2019-20	140	103	33
<b>Total</b>		<b>700</b>	<b>663</b>	<b>554</b>

(Source: Information provided by UD&HD, Bihar)

It is evident from the above table that out of 700 internal audits, 663 internal audits had actually been conducted during 2015-20 but only 554 reports had been submitted by the CA firms till September 2021.

• **Maintenance of accounts by ULBs in DEAS**

The Ministry of Urban Development, GoI, in consultation with the CAG, had prepared (2004) the National Municipal Accounts Manual for maintenance of accounts on accrual basis by ULBs. Sections 86, 87 & 88 of the BM Act, 2007 also stipulate that the State Government shall prepare a Bihar Municipal Accounting Manual for implementation of the accrual based Double Entry Accounting System and the Chief Municipal Officer shall, within four months of the close of a year, cause to prepare financial statements consisting of a Fund Flow Statement, an Income and Expenditure Account, Receipt and Expenditure Account and a Balance Sheet for the preceding year. The UD&HD notified (January 2014) the ‘Bihar Municipal Accounting Rules, 2014’, for preparation and maintenance of financial statements on accrual based Double Entry System in Municipalities, from 1 April 2014, based on the National Municipal Accounts Manual (NMAM), issued by the Ministry of Urban Development (GoI),

Further, the UD&HD had engaged (January 2019 and November 2019) six CA firms, for maintenance of accounts of 124 out of 140 ULBs, in the Double Entry Accounting System (DEAS), for the financial years 2012-13 to 2019-20. In 18 ULBs, accounts for the FYs 2012-13 to 2019-20, in 26 ULBs accounts for the FYs 2014-15 to 2019-20 and in 80 ULBs, accounts for the FYs 2016-17 to 2019-20, were to be prepared in DEAS. As per the agreement executed, the CA firms had to prepare and update the Subsidiary Cash Books, Grants Register, Scheme Register, Fixed Assets Register (FAR), Property Tax Receivables (PTR) and various other returns. The maintenance of accounts was to be completed till July-August 2021 as per the details given in **Table 3.11** below:

**Table-3.11: Status of maintenance of accounts of ULBs in DEAS by CAs**

Sl. No.	No. of ULBs	Scope of works	Work awarded/ completion date	Remarks
1.	35	Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2016-17 to 2019-20 and Preparation of Financial Statements for the FYs 2016-17 to 2019-20.	January –November 2019/July –August 2021	Accounts compiled for the FYs 2014-15 and 2015-16
2.	45	Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2016-17 to 2019-20 and Preparation of Financial Statements for the FYs 2016-17 to 2019-20.	January –November 2019/July –August 2021	Accounts compiled for the FYs 2014-15 and 2015-16
3.	18	Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2012-13 to 2019-20 and Preparation of Financial Statement for the FYs 2012-13 to 2019-20.	January –November 2019/July –August 2021	Accounts compiled for the FYs up to 2011-12.

Sl. No.	No. of ULBs	Scope of works	Work awarded/ completion date	Remarks
4.	26	Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2014-15 to 2019-20 and Preparation of Financial Statement for the FYs 2014-15 to 2019-20.	January –November 2019/July –August 2021	
<b>Total</b>	<b>124</b>			

(Source: Information furnished by the PRD)

However, maintenance of accounts in DEAS was not completed by the CA firms, in any of the ULBs, for any of the years, till 20 September 2021.

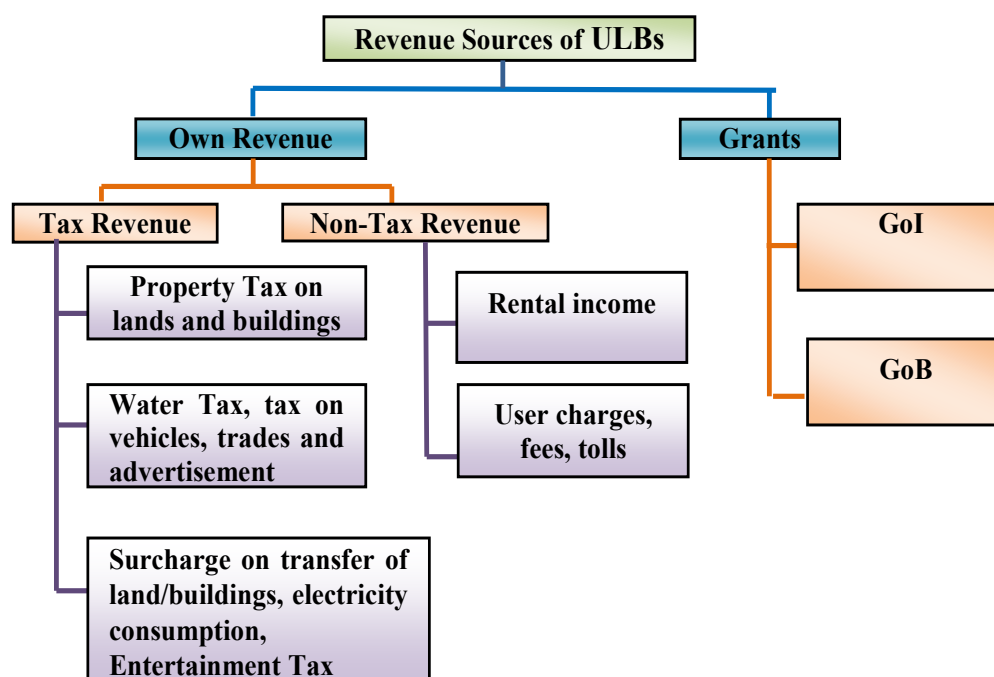
### 3.8 Financial Reporting Issues

#### 3.8.1 Sources of Funds

##### 3.8.1.1 Sources of Funds

The Bihar Municipal Act, 2007, lists out the set of taxes which Municipalities may levy for raising revenues. The Municipalities may levy user-charges additionally, for delivering various services, as mentioned in the Act. The fees and fines are also leviable on the sanction of building plans, municipal license for uses of lands etc. The BM Act also provides for grants - in - aid for them, on the recommendation of CFC and SFC. Sources of funds of ULBs are shown in Chart 3.5 below:

Chart 3.5: Sources of Funds



(Source: Section 127 of BM Act, 2007 and Economic Survey, GoB)

### 3.8.1.2 State Budget allocation vis-à-vis expenditure

The budget provisions made by the State Government for the UD&HD (including ULBs), state share towards the GoI Schemes and grants received under the recommendations of CFCs and SFCs, for the years 2015-20, are given in **Table 3.12** below:

**Table 3.12: Budget allocation vis-à-vis expenditure**

(₹ in crore)

Sl. No.	Particulars	Head	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	1	2	3	4	5	6	7	8 (3 to 7)
1.	Budgetary Allocation	Revenue	3,111.15	4,622.75	5,047.93	5,361.29	6,235.04	24,378.16
		Capital	37.73	0.00	0.00	3.00	160.00	200.73
		<b>Total</b>	<b>3,148.88</b>	<b>4,622.75</b>	<b>5,047.93</b>	<b>5,364.29</b>	<b>6,395.04</b>	<b>24,578.89</b>
2.	Expenditure	Revenue	1,977.47	3,377.93	3,236.04	3,297.02	2,984.53	14,872.99
		Capital	0.00	0.00	0.00	3.00	160.00	163.00
		<b>Total</b>	<b>1,977.47</b>	<b>3,377.93</b>	<b>3,236.04</b>	<b>3,300.02</b>	<b>3,144.53</b>	<b>15,035.99</b>
3.	Saving (1-2)		1,171.41	1,244.82	1,811.89	2,064.27	3,250.51	9,542.90
4.	Percentage of saving		37	27	36	38	51	39

(Source: Appropriation Accounts of Government of Bihar)

It is evident from the table above that UD&HD could not utilize the budgetary allocation fully and the percentage of savings ranged between 27 per cent and 51 per cent, during 2015-20. Moreover, the total allocation under Capital head was less than one per cent of the total allocation by the State during 2015-20, yet the allocation under the Capital head could not be fully utilized.

### 3.8.1.3 Receipts and Expenditure of ULBs

As per the 6<sup>th</sup> SFC Report, tax and non-tax revenue of all ULBs from their own resources taken together, was ₹ 1,214.57 crore. This constituted only 7 per cent of the total revenues of ₹ 16,805.54 crore of the ULBs during the FYs 2015-16 to 2019-20 {*Appendix 3.4 (A)*}. The establishment expenditure (over salary, wages and other administrative expenses) of ULBs, for the FYs 2015-16 to 2019-20, was ₹ 3,002.52 crore (20.2 per cent of the total expenditure), indicating that the self-generated income (Own tax & non-tax revenue) of ULBs was not sufficient to meet even their establishment expenses {*Appendix 3.4 (B)*}.

Thus, Municipalities were substantially dependent on Government grants rather than on self-generated income for carrying out their mandated functions and were still far from being self-reliant.

## 3.8.2 Recommendations of the 14th Central Finance Commission

### Fourteenth Finance Commission

As per the recommendations of the 14<sup>th</sup> Finance Commission, grants were released under two components i.e. Basic Grant (BG) and Performance Grant (PG). The BG was to be utilised for providing basic services viz. water supply, sanitation, sewerage, storm water drainage, solid waste management etc. while the PG were designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement of own revenue. GoI had

to release BG for a year, to the State in two instalments, in June and October. The division of grants between BG and PG was to be in the ratio of 80:20 for Municipalities. The 14<sup>th</sup> FC had laid the following three conditions, which would enable the ULBs to become eligible for PG:

- ULBs would have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which they seek to claim the Performance Grant.
- They would also have to show an increase in own revenues over the preceding year, as reflected in these audited accounts; and
- They must publish the service level benchmarks relating to basic urban services each year for the award period and make them publically available.

The grants recommended by the 14<sup>th</sup> FC and released to GoB, during the FYs 2015-16 to 2019-20, are given in **Table 3.13** below:

**Table-3.13: Entitlement and Receipt of FFC grant in Bihar**

(₹ in crore)

Financial Year	BG					PG		
	Entitled	Released			Short receipt	Entitled	Released	Short receipt
		1 <sup>st</sup> Inst.	2 <sup>nd</sup> Inst.	Total				
2015-16	256.83	128.41	126.59	255.01	1.82	0	0	0
2016-17	356.83	176.55	175.30	351.85	4.98	104.96	104.22	0.74
2017-18	410.90	202.55	202.55	405.11	5.79	118.78	0	118.78
2018-19	475.34	237.67	236.01	473.68	1.66	134.89	0	134.89
2019-20	642.28	318.89	318.89	637.79	4.49	176.22	0	176.22
<b>Total</b>	<b>2,142.18</b>	<b>1,064.07</b>	<b>1,059.34</b>	<b>2,123.44</b>	<b>18.74</b>	<b>534.85</b>	<b>104.22</b>	<b>430.63</b>

(Source: 6<sup>th</sup> SFC report Grant Sanctioning letters, allotment letters)

The State Government received a total sum of ₹ 2,227.66 crore in form of BG (₹ 2,123.44 crore) and PG (₹ 104.22 crore) against the entitlement of ₹ 2,677.03 crore (BG - ₹ 2,142.18 crore and PG- ₹ 534.85 crore). Thus, GoB received less BG, amounting to ₹ 18.74 crore, than it was entitled for, during the FYs 2015-16 to 2019-20, for Municipalities. The Reason of short-receipt of BG by GoB was not furnished by the Department. Further, the GoB could not receive the total amount of ₹ 430.63 crore for the FYs 2016-17 to 2019-20 as the State Government did not fulfill the mandatory conditions, as laid down by the 14<sup>th</sup> FC, for the release of PG.

### 3.8.3 Recommendations of the State Finance Commission

#### 5<sup>th</sup> State Finance Commission

State Finance Commissions were constituted by the GoB to review the financial position of LBs and recommend the principles for governing the distribution of net proceeds of taxes, duties *etc.*, between the State and the LBs.

The GoB constituted (December 2013) the 5<sup>th</sup> SFC for the period 2015-20 in pursuance of Article 243-Y read with Article 243-I of the Constitution and

Section 71 of BM Act, 2007, to review the financial position of LBs and to recommend the principles to govern the distribution of net proceeds of taxes, duties etc., between the State and the LBs. Though the report of the Commission was due on 31 March 2015, it was submitted in February 2016. Consequently, the State Government decided to implement the recommendations of the 5<sup>th</sup> SFC from the year 2015-16 with some amendments. The status of release of grants to ULBs, under 5<sup>th</sup>SFC, is given in **Table- 3.14** below:

**Table-3.14: Status of release of grants under Fifth SFC recommendation**

(₹ in crore)

Financial Year	Due month for release of amount		Entitlement amount	Amount released and month of release			Delay		Short release
	1 <sup>st</sup> inst.	2 <sup>nd</sup> Inst.		1 <sup>st</sup> inst.	2 <sup>nd</sup> Inst.	Aadarsh Nagar Nikay	1 <sup>st</sup> inst.	2 <sup>nd</sup> Inst.	
2015-16	Grants to be released in one lump		781.32	434.64 (21 March 2016)	Not released	00	----	-	346.68
2016-17	30 April 2016	31 October 2016	925.85	462.93 (19 October 2016)	449.93 (29 March 2017)	13.00	172 days	149 days	0
2017-18	30 April 2017	31 October 2017	1041.45	509.60 (14 September 2017)	497.25 (3 July 2018)	11.12	137 days	245 days	23.48
2018-19	30 April 2018	31 October 2018	1114.54	508.53 (10 July 2018)	541.89 (13 August 2019)	2.83	71 days	286 days	61.19
2019-20	30 April 2019	31 October 2019	1278.75	563.24 (13 August 2019)	714.61 (15 September 2020)	-	105 days	320 days	0.90
<b>Total</b>			<b>5141.91</b>	<b>2478.94</b>	<b>2203.68</b>	<b>26.95</b>			<b>432.25</b>

(Source: 6<sup>th</sup> SFC Report and Information provided by UD& HD)

It is evident from the table above that there was short release of grant for ₹ 432.25 crore for the FYs 2015-16 to 2019-20. Further, the first instalments, for the FYs 2016-17 to 2019-20, were released with delays of 71 to 172 days and the second installments were released with delay of 149 to 320 days, during the FYs 2016-17 to 2019-20.

Moreover, it was mentioned in the 6<sup>th</sup> SFC Report that ULBs (having low own revenue) were substantially dependent on CFC and SFC transfers to garner resources for rendering mandated core services.

### 3.8.4 Maintenance of Records

Rules 12, 53, 69 and 84 of the Bihar Municipal Accounting Rules, 2014 prescribe maintenance of basic records, registers for transparency, accountability and proper watch over of accounts of ULBs. Audit observed that the 12 test-checked ULBs did not maintain key records (*Appendix 3.5*).

The Executive Officer of Nagar Parishad, Masaurahi, replied that, due to shortage of staff, the records could not be maintained, while Executive Officers of the other ULBs replied that the records would be maintained in future.

### **3.8.5 Non- Preparation of Bank Reconciliation Statement**

Section 13(5) of BMAR, 2014, provided that the actual balance in the bank or treasury should be compared and reconciled with the bankbook balance periodically at least once at the end of every month.

Audit observed that four test checked ULBs<sup>54</sup> did not prepare Bank Reconciliation Statements (BRS) (**Appendix- 3.6**). On this being pointed out in audit, Executive Officers of all test-checked ULBs (except Nagar Nigam, Gaya) replied that BRS would be prepared, while Nagar Nigam, Gaya, did not furnish any reply. Further, at the Departmental level, Project Officer-cum-Additional Director, UD&HD, replied (August 2021) that presently, BRS was not being prepared fully by the ULBs.

Non-preparation of BRS on regular basis as required under BMAR, 2014, was fraught with the risk of misappropriation of municipal funds and indicated poor monitoring of funds in ULBs.

### **3.8.6 Capacity Building**

Full capacity building and ‘reforms’ in the ULBs were at the core of the 5<sup>th</sup> SFC recommendations. The 6<sup>th</sup> SFC had, however, observed that ULBs in Bihar still suffered from capacity constraints in terms of skilled manpower, IT facilities, equipment, office space, etc., leading to meagre utilization of available funds, inability to avail central resources, poor project implementation, also less than satisfactory delivery of services. However, no training programmes were organized by the UD&HD, during 2019-20.

The UD&HD stated (August 2021) that, due to Covid-19, training programmes for the financial years 2019-21 could not be conducted. The reply was partially acceptable, as the Covid-19 pandemic was not prevalent during the period 2019-20.

### **3.8.7 Issues related to AC/DC Bills**

Rule 177 of the Bihar Treasury Code (BTC), 2011 provides that a certificate shall be furnished by the Drawing and Disbursing Officer to the effect that money withdrawn on the contingent bills shall be spent within the same financial year and the unspent amount shall 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 shall 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 shall be encashed after the end of this period of six months, unless the DC bill has been submitted. Details of unadjusted AC bills along with reasons, are given in **Table- 3.15** below:

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<sup>54</sup> *Municipal Corporation- Gaya; Municipal Council-Madhubani and Nagar Panchayat-Jaynagar and Rajgir*

**Table-3.15: Details of AC bills pending for adjustment**(*₹in crore*)

Financial Year	A.C bill amount	Submitted D.C bill	Unadjusted A.C bill	Remarks
2002-19	13.12	0	13.12	Amount drawn through AC Bills, DDO was not Clear
2009-11	5.93	3.04	2.89	Amount drawn through AC Bills, DC Bills were not Submitted by DDO to AG(A &E)
2002-19	14.79	6.00	8.79	Amount drawn through AC Bills, DC Bills were pending with District Magistrate (DM).
2002-19	18.13	5.50	12.63	Amount drawn through AC Bills, DC Bills were pending to ULBs and BUIDCO.
2019-21	Amount Drawn through AC Bill was Nil.			
<b>Total</b>	<b>51.97</b>	<b>14.54</b>	<b>37.43</b>	

*(Source: Information furnished by UD&HD)*

As evident from the table above, ₹ 51.97 crore was withdrawn through AC bills during the financial years 2002-03 to 2018-19 and further no amount was drawn through AC bills during FYs 2019-21, Out of this, ₹ 14.54 crore was adjusted by AG (A&E) and ₹ 37.43 crore (72 per cent) remained outstanding for adjustment (as of March 2021). Reasons for pending adjustment of AC bills were (i) DDO not cleared - ₹ 13.12 crore (ii) DC bills not submitted by DDO to AG (A&E) - ₹ 2.88 crore (iii) DC bills pending with DMs - ₹ 8.80 crore and (iv) DC bills pending with ULBs and BUIDCO - ₹ 12.63 crore.

On unadjusted AC bills, the Assistant Director-cum-Joint Secretary of the Department replied (July 2021) that, against the outstanding amount of ₹ 37.46 crore as on March 2021, an amount of ₹ 2.39 lakh had been adjusted and ₹ 37.43 crore remained outstanding for adjustment. He further added that in compliance to the directions received in the review meeting held (March 2021) by the Finance Department, reminders had been issued to the DMs and units concerned, for adjustment of DC bills against the corresponding AC bills.

AC bills pending for adjustment/recovery for such long periods of time, indicated weak internal control and a poor monitoring mechanism.







**CHAPTER – IV**  
**COMPLIANCE AUDIT**



## Chapter – IV

### Urban Development and Housing Department

#### 4.1 Unfruitful expenditure on incomplete water supply work

**Failure of 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.**

The Government of Bihar (GoB) launched (December 2015) *Mukhyamantri Shahari Peyjal Nishchay Yojna* (MSPNY) with the objective of providing piped water supply to every household in urban areas with a view to end their dependence on hand-pumps and other sources of potable water. The households (14,64,581 urban households), who had not yet got piped drinking water, were to be covered under the Scheme, to provide them clean drinking water in the next five years. The Scheme guidelines provide that construction of tube well was to be done first and, after its successful installation, pipe laying work was to be done, through e-tender, under supervision and monitoring (including online monitoring) of the Municipal Board, as well as and by the Urban Development and Housing Department (UD&HD) at the State level.

Scrutiny of records (November 2019) of *Nagar Parishad* (NP), Banmankhi, revealed that work related to laying of water supply pipes and connection to households, in 13 out of 17 Wards of the NP under the MSPNY, were awarded (November 2017 to May 2018) to seven different contractors and the works were to be completed within four months from the date of awarding the works, vide details given in **Table 4.1** below

**Table 4.1: Details of pipe laying works in 13 wards**

Sl. No.	Ward No.	No. of households covered	Contract amount (Amount in ₹)
1	1	512	32,62,673
2	2	330	15,75,183
3	4	327	23,61,576
4	5	330	21,43,045
5	6	418	27,70,493
6	7	401	17,52,672
7	8	200	15,51,976
8	10	256	29,48,642
9	12	525	13,84,298

Sl. No.	Ward No.	No. of households covered	Contract amount (Amount in ₹)
10	13	256	12,18,372
11	14	346	19,66,593
12	16	308	16,08,398
13	17	424	11,45,212
<b>Total</b>		<b>4,633</b>	<b>2,56,89,133</b>

(Source: Information furnished by auditee units and concerned scheme files)

As per direction (27 October 2016) of the Department, wherein it was instructed that, in class B towns, piped water supply was to be done with the help of existing infrastructure (pipe line and pumps) available at that place. In Nagar Parishad (NP), Banmankhi, a class B town, piped water supply was being done prior to 2012, in the main road of the town, by the PHED division. On 20 July 2012, the PHED transferred two motor pumps to the NP, for water supply work. However, the NP neither analyzed the capacity of these pumps, nor did it include the cost of procurement and installation of submersible pumps in the estimate of work for laying pipes. The NP presumed that two submersible pumps, transferred by the Public Health Engineering Department (PHED), Division, Banmankhi, would be sufficient for water supply in all 17 Wards of the NP.

The contractors executed the pipe-laying work and extended connection to households during March 2018 to February 2019 and the NP paid a total amount of ₹ 1.72 crore to the contractors, from the Scheme fund, during March 2018 to February 2019. However, water supply could not commence, as the submersible pumps transferred by the PHED Division, were insufficient to supply potable water in all these 17 Wards of the NP.

The NP Board accorded administrative approval (May 2019) for procurement and installation of 12 submersible pumps, with an estimated cost of ₹ 1.65 crore, for water supply in 13 Wards. The EO of the NP made a request (July 2019) to the Department to issue guidelines regarding the procurement of additional 13 submersible pumps for successful water supply. The Department did not respond to the letter of the EO till 26 June 2021.

On the matter being followed up by Audit, the EO of the NP replied (June 2021) that the Department remained indifferent towards the request of the NP and no direction was issued by the Department in this regard. The EO replied (July 2021) that the NP had procured and installed 12 pumps between 10 April 2021 and 8 June 2021 and had paid ₹ 1.06 crore to the contractors, but piped water supply was being made only in 4 out of

17 Wards only, from the pumps made available by the PHED Division. The newly procured pumps could not be put in use, as electricity connection was under process.

Moreover, the Department had already issued the detailed guidelines for implementation of the Scheme and preparing the feasibility of the scheme, proper assessment of requirement, awarding the works through e-tender *etc.* were the responsibility of the NP and not of the Department.

Thus, it is evident from the facts narrated above that the NP failed to estimate the requirement of additional pumps for water supply in 13 Wards of the NP and pipe-laying and household connection works were carried out without ensuring the availability of sufficient numbers of pumps. Besides, the NP as well as the Department failed to monitor the implementation of the Scheme which resulted in non-supply of potable water in these 13 Wards, even after a lapse of two to three years of laying of pipes and household connections and after incurring an expenditure of ₹ 2.78 crore<sup>55</sup>. As such the intended objective of the Scheme was defeated.

The matter was reported to Government (July 2021); reminder was issued on 23 September 2021 Reply is awaited.

## 4.2 Loss of tax revenue

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

Section 127(8) of the Bihar Municipal Act, 2007, stipulates that Property Tax shall be levied by the Municipality, within a minimum of 9 *per cent* and a maximum of 15 *per cent* of the Annual Rental Value<sup>56</sup> (ARV) of the holdings. Further, ARV of the holdings shall be calculated as a multiple of the carpet area and the rental value fixed by the Municipality. The rental value of the holdings depends upon the (a) situation of holding<sup>57</sup>, (b) use of holding (c) type of construction (d) type of occupancy and (e) type of non-residential use of holdings.

Further, Rule 13 of the Bihar Municipal Property Tax (Assessment, Collection, and Recovery) Rules, 2013, stipulates that it will be the responsibility of the tax payer or owner of the holding to self-assess their Property Tax and pay it to the Municipality, without waiting for a demand notice from Municipality.

<sup>55</sup> ₹ 1.72 crore + ₹1.06 crore = ₹2.78 crore

<sup>56</sup> Annual Rental Value of a holding means the gross annual rental at which a holding may reasonably be expected to be let out.

<sup>57</sup> Principal Main Road, Main Road or Other Road

Every assessee/taxpayer and owner of the holding is required to follow the scheme of self-declaration and self-assessment for calculation and payment of Property Tax. If any owner of the holding or assessee willfully suppresses material information essential for the assessment of Property Tax or under assesses the Property Tax, such person shall be liable for payment of difference between the amount actually payable and self-assessed tax and also fine of one hundred *per cent* of such difference amount.

Scrutiny of records (January 2020) of the Patna Municipal Corporation (PMC) revealed that PMC had classified (September 1993) roads into three categories (Principal Main Road, Main Road and Other Road) the rental values per square foot, for different classes of holdings, situated on the aforesaid three categories of roads, were fixed accordingly for calculation of ARV.

Scrutiny of the records of 102 test-checked holdings, showed that although five holdings were actually situated on Principal Main Roads, their ARs had been calculated on the basis of rates prescribed for the Main Roads/Other Roads. The rental value was calculated at a lower rate, as the rate per square foot, of the holdings situated in the Main Road/Other Roads, was lesser than that of holdings situated on the Principal Main Roads. Consequently, Property Tax, amounting to ₹ 85.27 lakh (*Appendix 4.1*)<sup>58</sup> was short realised by PMC, for the period from FY 1994-95 to FY 2019-20, from the owners of the holdings.

Further, the owners of the aforesaid five holdings had suppressed material information i.e. situation of the holdings on the Principal Main Road. Therefore, the PMC had to realise penalty, amounting to ₹ 20.90 lakh (*Appendix 4.2*), from FY 2013-14<sup>59</sup> onwards, from the owners of the holdings. However, PMC did not realise this penalty.

The matter was pointed out to the Municipal Commissioner, PMC, but no reply had been furnished (as of June 2021). It was, however, observed from the Self-Assessment Form, submitted by owners of two<sup>60</sup> holdings out of the aforesaid five holdings, that these two holdings had been correctly classified, from 'other roads' to 'Principal Main Road' and, Property Tax was accordingly being paid from the financial year 2020-21. This indicated that, prior to financial year 2020-21, the calculation of the Property Tax was not proper.

Thus, the failure of the Municipal Commissioner to realise Property Tax on the accurate classification of the holdings and not initiating any action to

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<sup>58</sup> *Annual Rental Value (ARV) = carpet area x rental value x occupancy factor x multiplying factor*

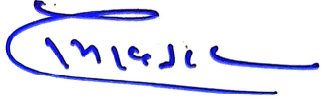
<sup>59</sup> *Self-assessment scheme of the holdings was started from the financial year 2013-14.*

<sup>60</sup> *MS Sujata Hotel Pvt. Ltd, R- Block, Patna (2 holdings)*

realise the penalty amount from the owner of the holdings for suppressing material information essential for calculation of Property Tax, was in violation of provisions of the Bihar Municipal Act and resulted in the loss of Property Tax amounting to ₹ 1.06 crore<sup>61</sup>.

The matter was reported to Government (July 2021), and reminder was issued on 21 September 2021. Reply is awaited.

**Patna**  
**The 23 March 2023**

  
**(RAMAWATAR SHARMA)**  
**Accountant General (Audit)**  
**Bihar, Patna**

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<sup>61</sup> ₹ 85.27 lakh + ₹ 20.90 lakh = ₹ 106.17 lakh i.e. ₹ 1.06 crore







**APPENDICES**



### Appendix-1.1

(Refer: Paragraph-1.8.4; Page-24)

#### List of cash books that were not produced to audit

Sl. No.	Heads of the cash book
1.	Allowance and others to the members of PRIs and <i>Gram Kachahari</i>
2.	Externally Aided Project
3.	Contingencies for GPs
4.	Rent and Contingency for <i>Gram Kachahari</i>
5.	<i>Panchayat Sarkar Bhawan</i> (by PRD)
6.	Ex-gratia Grants for PRIs
7.	Award for GP and <i>Gram Kachahari</i>
8.	Grants to Bihar Gram Swaraj Yojana Society (BGSYS)
9.	On a contract basis DEO
10.	Training
11.	Modernisation of PRD
12.	<i>Panchayat Sarkar Bhawan</i> (by LAEO)
13.	State Election Commission (PRD)
14.	Election
15.	<i>Gram Kachahari Nayay Mitra</i> /Honorarium of Secretary
16.	Secretariat and Economic Services

(Source: Information obtained from the records of PRD)

**Appendix-1.2**

**(Refer: Paragraph- 1.8.5.1; Page-25)**

**Status of implementation of the P.E.S. application software in the State**

Application	Description	Status of implementation in the State
PRIA Soft	Captures receipt & expenditure details through voucher entries. Generates cash books, registers, etc.	Implementation of PRIA Soft application is under process.
Plan Plus	Facilitates participative decentralized planning & preparation of Gram Panchayat Development Plan (GPDP)	It is subsumed in the e-Gramswaraj application and plans are being uploaded for the year 2020-21 and 2021-22. Implemented
National Panchayat Portal	Dynamic Web site for each Panchayat to share information in the public domain	Implemented
Local Government Directory	Captures details of local governments and assigns unique code & maps Panchayats with Assembly and Parliamentary Constituencies	Implemented
Action Soft	Facilitates the proper recording of the Financial and Physical progress of the works	<i>Not available</i>
National Asset Directory	Captures details of assets created/maintained; provides for maintenance	<i>Not available</i>
Area Profiler	Captures geographic, demographic, infrastructural, socio-economic & natural resources profile of panchayats; Includes details of Elected Representatives & Panchayat Functionaries, etc	Partially Implemented
Service Plus	A dynamic service delivery portal to provide electronic delivery of services.	<i>Not available</i>
Training Management Portal	Portal to address training needs of stakeholders including feedback, training materials, etc.	<i>Not available</i>
Social Audit	To understand, measure & verify work done by the Panchayat & improve their social performance	<i>Not available</i>

*(Source: RGSA frameworks issued by MoPR, GoI)*

**Appendix-2.1**  
**(Refer: Paragraph-2.1; Page-33)**  
**List of Units audited**

Sl. No.	Name of the Unit
1	ZP Saran
2	ZP Darbhanga
3	ZP Purbi Champaran (Motihari)
4	ZP Siwan
5	DPRO Patna
6	DPRO Darbhanga
7	DPRO Purbi Champaran (Motihari)
8	DPRO Saran
9	DPRO Siwan
10	PS Baheri, Darbhanga
11	PS Dhaka, Motihari
12	PS Dariyapur, Saran
13	PS Barharia, Siwan
14	GP Hathauri(S), Baheri
15	GP Mitunia, Baheri
16	GP Barharia Lakhansen, Dhaka
17	GP Balua Gowawadi, Dhaka
18	GP Barharia, Barharia
19	GP Bhamopali, Baraharia
20	GP Jitwarpur, Dariyapur
21	GP Barwe, Dariyapur

*(Source- Audit Tour programme)*

**Appendix-2.2**

**(Refer: Paragraph-2.1.1.2.; Page-35)**

**Status of implementations of 5<sup>th</sup> SFC recommendations**

Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
1.	9.5.2	Based on the scenarios of varying <i>per cent</i> of devolution, devolution of 8.5 <i>per cent</i> in 2015-16 and 9 <i>per cent</i> in 2016-17 to 2019-20 of the divisible pool is recommended.	<b>Implemented</b> Devolution of fund was done at the rate of 8.5 <i>per cent</i> of the divisible pool for 2016-17 to 2019-20.
2.	9.5.3	Inter LBs Share: The devolved funds would be shared among the PRIs and the ULBs in the ratio of 70:30 for the year 2015-16 and 60:40 for the subsequent years.	<b>Implemented</b> The devolved funds were shared among the PRIs and the ULBs in the ratio of 70:30 for 2016-17 to 2019-20.
3.	9.5.4	Devolved funds to the PRIs would be distributed among GP: PS: ZP in the ratio of 70:10:20	<b>Implemented.</b>
4.	9.5.5	Allocation of the devolved funds among different tiers of the PRIs.	<b>Implemented</b> Each GP in a particular Block did not get equal share based on Block's UDI (Under Development Index) rather funds were released to GPs as per population.
5.	9.5.8	The devolved funds would evidently be given to the LBs (which are self-governments) as "Block Funds". The 5 <sup>th</sup> SFC recommends the devolved funds to be used by the LBs for the purposes in that priority.	<b>Not Implemented.</b>
6.	9.6.1	As recommended in para 8.9.8, the total SFC transfers (Devolution + Grants) would be 2.75 <i>per cent</i> in 2015-16, 3 <i>per cent</i> in 16-17 & 17-18 and 3.25 <i>per cent</i> in 18-19 & 19-20 of the State Budget.	<b>Partly implemented.</b>
7.	9.6.3	Grants would focus on Capacity Building and would be utilized for (a) Manpower, Training, e-Governance, Office Space, (b) GK, (c) Preparation of Master Plans/CDPs/DPRs/GIS Maps, (d) Developing Divisional and District Headquarters on the lines of Smart and AMRUT Cities, (e) SPUR Type Professional Services to the ULBs and the PRIs, (f) Promoting PPP, (g) Incentive for ARM and Performance Grants (Para 8.9.2), (h) Regulatory Bodies including Ombudsman, State Property Tax Board, Urban Regulator, (i) DLFA and internal audit (j) Professionalizing SFC Cell in Finance Department.	<b>Partly implemented.</b>
8.	9.6.4	PRD would determine the norms based on letter and spirit of this commission's recommendations for disbursement of item-wise Grants among the PRIs. Being the first year of the SFC award, unused amount of Grants for 2015-16 would be disbursed as 'Block Fund'.	<b>Partly implemented.</b>
9.	9.6.7	It may be reiterated that the devolution amount could be utilized to supplement those component of the grants which need additional amounts.	<b>Not Ascertained</b>

Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
10.	9.9	It is emphasized that the total Transfers (Devolution + Grants) recommended by the 5th SFC are over and above the normal State Budgetary provisions for the LBs.	<b>Implemented.</b>
11.	9.10	Grants amount not likely to be utilized in a year, would be given to the PRIs as 'Block Grants' (in the first week of the last quarter) for Smart Panchayats.	<b>Not Implemented.</b>
12.	9.11.2 (i)	Own Additional Resources (Tax and Non-Tax): The LBs must make all efforts to raise their own resources (tax & non-tax). Incidentally, one of the conditions imposed by the 14 <sup>th</sup> FC for performance grants is increase in own revenues. This would also enhance their autonomy and accountability.	<b>Not Implemented.</b>
13.	9.11.2 (ii)	Public Partnership (PPP): It is evident that for reaching All India level of infrastructure and services, the Bihar LBs would need huge amounts, which cannot be met through State Budget, FC/SFC transfers, Central Schemes and own revenues. Leveraging PPP in a big way for creation and O&M of infrastructure and services is a necessity.	<b>Not Implemented.</b>
14	9.11.2 (iii)	Borrowing: The possibility of market borrowing has to be explored seriously to finance long-term investment plans, provided that debt service is ensured and does not jeopardize the fiscal stability of either the local or the State Govt. Operational surpluses and own-capital revenues can be used for co-financing or repaying debt.	<b>Not Implemented.</b>
15	9.11.2 (iv)	Central and State schemes: The LBs have to make all efforts to fully utilize funds available under Central and State Schemes. The 5 <sup>th</sup> SFC is recommending sufficient funds for Capacity Building of the LBs to enable them to do so.	<b>Partially Implemented.</b>
16	9.11.2 (v)	Expenditure Management: Sound Expenditure Management is necessary to ensure that available funds are utilized efficiently and effectively on improving service delivery and achieving LB's objectives through professionally planning resources & expenditure, controlling & executing expenditure and monitoring expenditure performance (Details in Para 10.11)	<b>Partly Implemented.</b>
17.	9.12 (i)	As recommended by the 13 <sup>th</sup> FC & the 14 <sup>th</sup> FC, the 5 <sup>th</sup> SFC transfers would be released directly into the bank account of the LBs concerned through electronic fund transfer and core banking system. Where such facility is unavailable, other modes of expeditious transfer would be notified by State Govt.	<b>Partially Implemented.</b> Funds were directly transferred into the bank accounts of GPs and ZPs while funds meant for PSs were released through ZPs.
18.	9.12 (ii)	Devolution amount for 2015-16 would be released to each PRI. in one installment based on R.E/Actuals of the preceding year i.e. 2014-15. In the subsequent years, while first allocation of 50 <i>per cent</i> of devolved funds would be released based upon the R.E/Actuals of SOTR of the preceding year in April, the second installment shall be released by October of the year subject to submission of accounts of the previous year, audited even through internal Audit.	<b>Not implemented.</b> Amount for 2015-16 was not released. Funds were released with delay and without submission of accounts of the previous year, audited even through internal Audit.



Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
19.	9.12 (iii)	Grants as recommended by the 5th SFC for 2015-16 would be released in one instalment based on the R.E/Actuals of the preceding year. In the subsequent years, while 1st instalment would be released along with the 1st instalment of the devolved fund (based on the RE/Actuals of the preceding year), the 2nd instalment would be released only after securing utilization report of the 1st instalment to the extent of 50 <i>per cent</i> , audited even through internal Audit.	<b>Not implemented.</b> Amount for 2015-16 was not released. Funds were released with delay and without securing utilization report of the 1 <sup>st</sup> installment to the extent of 50 <i>per cent</i> , audited even through internal Audit.
20.	9.12 (iv)	The details of Devolution and Grants received and utilized shall be placed before the respective Gram/Ward Sabhas and on the website of the LB at least twice a year in December and May respectively.	<b>Partly implemented.</b>
21.	9.12 (v)	In case some LBs fails to submit utilization report of 1st instalment of Grants within a year from the date of its release, 2 <sup>nd</sup> instalment due to them would be utilized by PR/UD Departments on Capacity Building of the LBs.	<b>Not Implemented.</b>
22.	9.13.1	Salaries of at least the existing staffs of the ZPs must come from their own revenues. State Govt. could at best meet the arrears.	<b>Partly Implemented</b>
23.	9.13.2	Funds earmarked for Manpower by the 5 <sup>th</sup> SFC is only for the sanction of new and filling of the vacant positions as per the Model Panchayat Cadres.	<b>Not Implemented.</b>
24.	9.13.3	Funds for e-Governance must be used for operationalizing e-Panchayat in a Mission Mode.	<b>Partly Implemented</b>
25.	10.2.1(ii)	Sufficient manpower and allocation have been recommended by this Commission to make DPC effective.	<b>Not Implemented.</b>
26.	10.2.3	All LBs (PRIs & ULBs) must prepare plans for socio-economic development as envisaged under Art 243ZD of the Constitution, leading to integrated district plan for both the panchayats and the municipalities through the DPC. <ul style="list-style-type: none"> <li>• Moreover, it is proposed to develop Panchayats as Smart Panchayats. It is accordingly recommended that appropriate guidelines on proper planning and delivery, based on model guidelines of MoPR, be issued by PRD.</li> <li>• Given the problem of migration out of the rural areas, the upper two tiers of the Panchayats should plan and implement schemes for framing livelihood and overall economic development in coordination with the line departments.</li> </ul>	<b>Not Implemented.</b>

Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
27.	10.3.6	<p>There should be adequate capacity building of both the elected and official functionaries particularly that of the GPs, for preparing budget and pursuing the same for expenditure control.</p> <ul style="list-style-type: none"> <li>• PRD should provide necessary supervision and facilitation so that budgets are prepared and approved on time and also the documents for expenditure control.</li> <li>• Since, almost the entire funds are received by the Panchayats as grants or for implementation of schemes from or via the State Government, all information on probable receipt of funds should be communicated to the Panchayats in time.</li> </ul>	<b>Partly Implemented.</b>
28.	10.4.10	<ul style="list-style-type: none"> <li>• PRD should come out with Rules to clearly prescribe procedural guidelines and circulate a Manual of Panchayat Finance,</li> <li>• Creation &amp; filling of posts related to accounts must be done urgently and the incumbents trained intensively.</li> <li>• Accounts of Panchayats should be computerized using PRIASoft urgently. The same should be in place for all ZPs by 2016-17, all the PSs and GPs by the year 2017-18.</li> <li>• PRD must have a robust system of supervision and facilitation for maintenance of accounts by the Panchayat so that any problem is known and solved concurrently.</li> </ul>	<b>Not Implemented.</b>
29.	10.6.5 (i)	State Government should put in place rules and procedures for collection of property tax by the GPs.	<b>Not Implemented.</b>
30.	10.6.5 (ii)	The 14th FC has already recommended that the States should take steps to empower the Panchayats to collect tax on advertisement.	<b>Not Implemented.</b>
31.	10.6.5 (iii)	No rule has been framed by GoB to enable GPs for imposition of tax on Profession, Trade, Callings and Employment, therefore, cannot collect Profession tax. At present most of the taxes is collected from the public sector employers and the organized private sectors, which are mostly located in urban areas. Therefore, the net proceeds should be divided between urban and rural areas in the ration 2:1.	<b>Not Implemented.</b>
32.	10.6.5 (iv)	Sharing land revenue with the GPs in Bihar was recommended as early as in 1959. Land revenue was an important source for the State Government in those days. Net proceeds of land revenue collected from any GP may be transferred to the GP.	<b>Not Implemented.</b>
33.	10.6.5 (v)	Overall supervision of the GP on tax collection will be useful for better realization of the same.	<b>Not Implemented.</b>
34.	10.6.5 (vi)	There is provision for collection of tolls, fees, user charges etc. by the Panchayats. PRD should come out with model bye-laws for being adopted by the Panchayats. The process of adoption should be facilitated by PRD.	<b>Not Implemented.</b>

Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
35.	10.6.5 (vii)	State Government should launch a drive for identification and documentation of all economic assets like lands, buildings, markets, water bodies etc. owned by Panchayats. These should be developed and managed for improving income of the Panchayats.	Not Implemented.
36.	10.6.5 (viii)	The Panchayats should be encouraged to develop infrastructures like markets, community centres, bus stands which are beneficial to the people and are also helpful in mobilizing revenue.	Not Ascertained
37.	10.6.5 (ix)	Services are the most visible activity of the Panchayats for the citizens and there should be enough emphasis in building capacities of their Panchayats for both improving services and recovering at least part of O&M charges.	Not Implemented.
38.	10.6.6	Incentivizing Collection of Own Revenue by the Panchayats: (i) The 14th FC has recommended performance grants for the GPs on condition that the revenue collected in the relevant year exceeds the amount collected in the previous year. In order to cross the initial barrier of collecting revenue, the incentive should be high enough to start with. The incentives should be given in the ratio of 1:4 for GPs, 1:3 for PSs and 1:2 for ZPs. i.e., for every additional Rs. 100 raised by a GP as their own revenue, they will be given 4 times the amount raised i.e. ₹ 400. There should be annual public function in each district to recognize performances of the GPs and to distribute performance grants so that there is more competition among the GPs in raising more revenue. (ii) The proposed TSSP should monitor the steps mentioned above along with improving capacity of collection of both tax and non-tax revenues.	Not Implemented.
39.	10.8(i)	Revenue (Tax and Non- Tax) Reforms (i) To begin with, the ZPs are expected to at least achieve the benchmark of meeting (a) 100 per cent their Establishment expenses and (b) O & M expenses of their infrastructure & services, through income from Own Sources; with the ultimate aim of getting credit rating to enable them to borrow from the market.	Not Implemented
40.	10.9.6 (i)	Local Assets: (i) Inventorying & periodically updating Fixed Asset Register (FAR), using transparent procedures for allocating assets for private use, aligning or classifying assets according to their role in delivering services, using the market value of assets for decision making, establishing a depreciation fund for funding asset replacement, monitoring key indicators (e.g., asset related costs and revenues), introducing life cycle management of infrastructure and buildings (starting from planning, operating and maintenance expenses for existing and new capital assets), using advanced instruments such as strategic asset management plans etc. must be implemented.	Not Ascertained.
41.	10.9.6 (iv)	PRI asset register should be available online by using 'Asset Directory' module of e-Panchayat.	Not Implemented.

Sl. No.	Para No. of Fifth SFC Report	Recommendations of the Fifth State Finance Commission accepted by GoB.	Position of implementation as per field audit observation.
42.	10.16.3	Restructure staffing urgently and equip all LBs (PRIs and ULBs) with relevant, adequate and skilled manpower as per proposed Model staffing details in Chapter-II & III. (Para 2.3 & Para 3.3.2) respectively, to meet the contemporary needs of technology and modern management. While doing so, it should be carefully determined as to which of the posts should be regular and contractual and which functions should be outsourced.	<b>Not Implemented.</b>
43.	10.19.1	Accountability and Transparency: i) Involving communities in setting key performance Indicators and reporting back to communities on performance, enhances accountability of the LBs and public trust in the local government system; ii) A monthly e-newsletter be issued by the LBs to stay in touch with and keep updated its citizens about all progress and initiatives. iii) Citizen's Charter should be updated and disseminated regularly and each LB should have a notice board displaying the Citizen's Charter for that LB. iv) PRD/ UDD need a Communication Cell with an aim to build ownership of reforms and improve dialogue between the LBs and citizens. For specific initiatives, the focus will be on building credibility, clarifying objectives and expected results. All vehicles for communication from LBs and PRD/UDD should carry coherent messages with a unified theme. It could also be outsourced to a professional firm.	<b>Not Ascertained.</b>
44.	10.19.2	<i>Gram Sabha and Ward Sabha:</i> The <i>Gram Sabha</i> and Ward committees play a major role in holding governmental authorities accountable. Active participation of citizens needs to be stimulated through proactive disclosure, greater accessibility to information and feedback channels. The ward Sabhas are to be made functional by holding elections.	<b>Implemented.</b>
45.	10.19.3 (iii)	Nevertheless, to deal with the complaints of corruption and maladministration, Ombudsman for oversight from above and effective social audit by the Gram/Ward Sabha from below, would be major steps.	<b>Not Implemented.</b>
46.	10.19.3 (iv)	Computerized accounts and transparent procurement process would also be necessary.	<b>Not Ascertained.</b>
47.	10.19.4	This commission recommends urgently putting in place Ombudsman separately for ULBs and PRIs since nature of their work is substantially different and the PRI Ombudsman itself would have huge work load. Moreover, the Ombudsman Rules for the PRIs should provide for Dy. Ombudsmen at Divisional level, given the large no. of PRIs.	<b>Not Implemented.</b>

(Source- 5<sup>th</sup> SFC Report, checklist and records of audited units)

**Appendix-2.3**

**(Refer: Paragraph-2.1.2.1; Page-36)**

**Delayed transfer of funds to Panchayat Samitis by Zila Parishad, Darbhanga**

(Amount in ₹)

S I. No.	Financial Year	Installment	Amount received in ZP	Date of entry in bank account	Date of transfer as per bank	Delays in transfer
1.	2016-17	First	3,80,19,756	10-1-17	23-1-17	12 days
		Second	3,80,19,756	30-3-17	11-4-17	12 days
2.	2017-18	First	4,32,51,228	8-2-18	28-2-18	19 days
		Second	4,32,51,228	31-3-18	16-5-18 & 25-5-18	16 days
3.	2018-19	First	5,00,55,664	23-10-18	1-12-18	38 days
		Second	4,74,56,479	20-3-19	28-5-19	69 days
4.	2019-20	First	5,06,41,456	31-10-19	25-11-19	26 days
		Second	5,33,45,379	13.04.20 to 15.04.2020 (CFMS)	19.08.2020 to 28.12.2020 (CFMS)	123 days to 257 days

(Source- Allotment Letter and Passbook)

**Appendix-2.4**  
**(Refer: Paragraph-2.1.2.4; Page-37)**  
**Status of release of grants for capacity building of PRIs**

(₹ in crore)

Projection of grants during FYs 2015-16 to 2019-20			Grant Sanctioned (₹ in crore)	Release of grants during FYs 2016-17 to 2019-20
A	<b>Capacity Building</b>	3,443.00	3,816.32	₹3,790.40 crore (Less release ₹25.92 crore)
	i. Manpower	2,720.00	3,168.47 252.62 201.18 194.05	Consolidated grant of ₹3,168.47 crore. In addition, ₹252.62 crore for arrear salary of ZPs employees, ₹ 175.26 crore for honorarium of Executive Assistants of GPs and ₹ 194.05 crore for District Panchayat Resource Centers (DPRC).
	ii. e-Governance	305.00		
	iii. Training	380.00		
	a) Programmes	200.00		
	b) Institutions	180.00		
	iv. Support for Smart Panchayats	38.00		
B	<b>Gram Kachahari</b>	340.00		
	v. Office Support	260.00		₹ 209.75 crore
	vi. Case Disposal	40.00		Nil
	vii. Dispute free village	40.00		Nil
C	viii. <b>Panchayat Sarkar /ZP Bhavan</b>	470.00	0	Nil
D	ix. <b>District Planning Committees</b>	80.00	0	Nil
E	<b>Performance Grants</b>	<b>1,400.00</b>	90	₹ 81crore. (Less release ₹ 9 crore)
	x. Additional Resource Mobilisation	880.00		Nil
	xi. Overall Performance	520.00		₹ 81 crore.
F	xii. <b>Ombudsman</b>	20.00	0	Nil
G	xiii. <b>DLFA/Internal Audit</b>	31.20	10	₹ 10
H	xiv. <b>SFC Cell in Finance Department</b>	0.80	0.25	₹ 0.25 crore

(Source- Sanction and Allotment Letters)

**Appendix-2.5**  
**(Refer: Paragraph-2.2; Page-43)**

**Sairat wise outstanding amount**

(Amount in ₹)

SI No.	Name of Sairats	Bid Amount	Realized Amount	Outstanding amount
<b>Financial Year : 2016-17</b>				
1.	Bhagipatti Jheel Taxi Stand	11,00,000	1,50,000	9,50,000
<b>Financial Year : 2017-18</b>				
1.	Line Bazaar	30,000	15,000	15,000
2.	Gopalganj Gudri Bazaar	2,90,100	2,44,000	46,100
<b>Total</b>		<b>14,20,100</b>	<b>4,09,000</b>	<b>10,11,100</b>

**Appendix- 2.6 (A)**  
**(Refer: Paragraph-2.3; Page-45)**

**Details of the schemes for which no records were handed over by the then Panchayat Secretary**

*(Amount in ₹)*

Sl. No.	Fund	Scheme No.	Estimated Cost (in ₹)	MB Amount	Advance to the Contractor	Physical Status	Remarks
1.	14 <sup>th</sup>	4/15-16	4,70,520	00	4,57,500	Work not started	Statement prepared from the scheme details handed over by the then Panchayat Secretary to the present Panchayat Secretary.
2.	FC	5/15-16	3,52,890	00	3,42,500	Work not started	
3.	BR	01/07-08	5,39,000	00	5,07,500	Work not started	
4.	GF	02/07-08	93,000	00	77,500	Work not started	
5.		03/07-08	2,96,000	00	2,32,500	Work not started	
6.		3/10-11	2,04,600	00	1,77,500	Work not started	
7.		1/11-12	3,72,000	00	3,57,500	Work not started	
8.		1/14-15	3,95,100	00	3,07,500	Work not started	
9.		1/15-16	4,90,000	00	4,07,500	Work not started	
10.		3/15-16	4,00,000	00	3,57,500	Work not started	
11.		5/15-16	4,81,000	00	4,07,500	Work not started	
12.		6/15-16	3,16,200	00	3,07,500	Work not started	
13.		7/15-16	-	00	3,07,500	Work not started	
14.		8/15-16	2,00,000	00	7,500	Work not started	
15.		9/15-16	3,45,000	00	1,07,500	Work not started	
		<b>Total</b>	<b>49,55,310</b>		<b>43,62,500</b>		



**Appendix- 2.6(B)**  
**(Refer: Paragraph-2.3; Page-45)**

**Details of incomplete schemes for which only MBs were handed over by  
the then Panchayat Secretary**

(Amount in ₹)

Sl. No.	Fund	Scheme No.	Estimated Cost (in ₹)	MB Amount	Advance to the Contractor
1	14 <sup>th</sup> FC	1/15-16	2,40,800	2,38,761	2,27,500
2		2/15-16	1,72,400	1,72,367	1,57,500
3		3/15-16	1,09,800	1,09,789	1,02,500
4	4 <sup>th</sup> SFC	1/15-16	4,70,520	4,70,523	3,42,500
5	BRGF	02/12-13*	2,04,600	1,66,033	7,500
6		1/13-14	4,95,000	4,92,625	4,07,500
7		2/15-16	2,71,310	2,71,310	2,57,500
8		4/15-16	3,72,810	3,68,430	3,57,500
		<b>Total</b>	<b>23,37,240</b>	<b>22,89,838</b>	<b>18,60,000</b>

(\* Scheme file, muster rolls and vouchers and MBs were provided in this case, but the scheme was incomplete)

**Appendix - 3.1**  
**(Refer: Paragraph-3.3.2(i); Page-52)**

**List of 18 functions/subjects to be carried out by the ULBs**

Sl. No.	Section of BMA 2007	Functions/Subjects
1.	290	Urban Planning including Town Planning
2.	274A & 275	Regulation of land use and construction of buildings
3.	45	Planning for economic and social development
4.	45	Roads and bridges
5.	45 & 169-192	Water supply for domestic, industrial and commercial purposes
6.	45; 193-203 & 220-230	Public health, sanitation conservancy and solid waste management
7.	45; 250-261 & 262-268	Urban forestry, protection of the environment and promotion of ecological aspects
8.	287	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded
9.	287&289	Slum improvement and up-gradation
10.	287	Urban Poverty Alleviation
11.	Chapter XXXII	Provision of urban amenities and facilities such as parks, gardens, playgrounds
12.	45	Promotion of cultural, educational and aesthetic aspects
13.	269-272 & 421	Burials and burial grounds; cremations, cremation grounds and electric crematoriums
14.	249 & 421	Cattle pounds; prevention of cruelty to animals
15.	352-353	Vital statistics including registration of births and deaths
16.	45	Public amenities including street lighting, parking lots, bus stops and public conveniences
17.	245 & 421	Regulation of slaughter houses and tanneries
18.	-	Fire Services

*(Source: Bihar Municipal Act 2007 and Twelfth schedule of the Constitution)*

**Appendix - 3.2**  
**(Refer: Paragraph- 3.3.2 (iii); Page-54)**

**Vacant posts of Executive and technical staff in ULBs**

Sl. No	Designation	Sanctioned Post	Men- in position	Vacancy	Percentage of vacant posts	Remarks
1.	Municipal Commissioner	18	11	07	39	MC Bhagalpur, MC Madhubani MC Betiah, MC Sasaram, MC Motihari, MC Samastipur & MC Sitamarhi were in additional charge
2.	Sr. Additional Municipal Commissioner	01	00	01	100	The post is in the Patna Municipal Corporation (PMC)
3.	Additional Municipal Commissioner	20	02	18	90	Three (03) posts for PMC while one (01) post each for the remaining MCs.
4.	Joint Municipal Commissioner	02	00	02	100	-
5.	Deputy Municipal Commissioner	51	22	29	57	Four (04) posts for PMC while three (03) post for other MC
6.	Executive Officers +Secretary to authority	253 (246 +7)	130	123	49	83 posts for Municipal Council; 157 posts for Nagar Panchayat and 06 posts for the PMC circle
7.	City Manager	391	62 (3 regular & 59 on contract)	329	84	
8.	Project Officer-cum-Additional / Deputy Director	18	07	11	61	Project Officer-cum-Additional (09)/Deputy Director (09)
9.	Officer posts under Sanitation & Waste Management Section	392	00	392	100	Assistant (286)/ Deputy (83)/public sanitation & waste management officer (23)
10.	Officer posts under Welfare & Registration Section	388	00	388	100	Assistant (281)/ Deputy (83)/Public Welfare & Registration Officer (24)
11.	Officer posts under Revenue & Audit Section	388	00	388	100	Assistant (281)/ Additional (83)/Revenue & Audit Officer (24)
12.	Supervisory posts under Town Planning Section	124	00	124	100	Assistant (107) /Deputy (17) Town-Planning Supervisor
13.	Engineer-in-Chief	01	00	01	100	-
14.	Chief Engineer (CE)	05	04	01	20	Out of four (04) men-in-position, one (01) was on contractual basis

Sl. No	Designation	Sanctioned Post	Men- in position	Vacancy	Percentage of vacant posts	Remarks
15.	Superintending Engineer (SE)	21 (Civil-19; Mechanical-02)	15 (Civil-14; Mechanical-01)	06 (Civil-05; Mechanical-01)	29	Out of 15 men-in-position, 11 posts were on contractual basis
16.	Executive Engineer (EE)	86 (Civil-70; Mechanical-06; Electrical-10)	50 (Civil-45; Mechanical-03; Electrical-02)	36 (Civil-25; Mechanical-03 Electrical-08)	42	Both EEs (Electrical) were on deputation
17.	Assistant Engineer (AE)	264 (Civil-193; Mechanical-67; Electrical-04)	225 (Civil-179; Mechanical-44; Electrical-02)	39 (Civil-14; Mechanical-23; Electrical-02)	15	
18.	Junior Engineer (JE)	549 (Civil-429; Mechanical-70; Electrical-50)	71 (Civil-67; Mechanical-04; Electrical-00)	478 (Civil-362; Mechanical-66; Electrical-50)	87	
19.	Assistant Town Planner	10	00	10	100	
<b>Total</b>		<b>2,982</b>	<b>599</b>	<b>2,383</b>	<b>80</b>	

(Source: Information provided by UD&HD, GoB)

**Appendix - 3.3**  
**(Refer: Paragraph- 3.7.4; Page-62)**

**Achievement of MCs against targets set in the SLB**

Indicator	Target Benchmark	Achievement of Twelve Municipal Corporations (in per cent)											
		1	2	3	4	5	6	7	8	9	10	11	12
<b>WATER SUPPLY</b>													
Coverage of water supply connections	100%	53	180	86	105	91	37	0	31	63	93	57	37
Extent of metering	100%	NP- Not Provided											
Continuity of water supplied	24 hrs												
Efficiency in collection of water use charges	90%												
Efficiency in redressal of customer Complaints	80%												
<b>SEWERAGE</b>													
Coverage of Toilets	100%	77	100	95	100	98	99	100	98	100	99	100	94
Coverage of sewerage Network	100%	50	NP	NP	NP	NP	64	0	NP	NP	34	NP	0
Efficiency in redressal of customer Complaints	80%												
<b>STORM WATER DRAINAGE</b>													
Coverage of storm water drainage network	100%	Under process.											
Incidence of water logging/flooding	0%												
<b>SOLID WASTE MANAGEMENT</b>													
Household Level Coverage	100%	NP- Not Provided											
Efficiency in collection of solid waste	100%												
Extent of segregation of Municipal Solid Waste (MSW)	100%												
Extent of Scientific Disposal of MSW	100%												
Efficiency in redressal of customer Complaints	80%												

(Source: Information furnished by UD&HD)

(1. Patna 2. Bihar Sharif 3. Arah 4. Gaya 5. Muzaifarpur 6. Begusarai 7. Munger 8. Purnea 9. Katihar 10. Chhapara 11. Darbhanga 12. Bhagalpur)

**Note:** (i) Coverage of water supply in regard to **Municipal Council** ranged between **21 per cent** (Farbisganj) and **153 per cent** (Bakhtiyarpur); further, in regard to **Nagar Panchayats**, it was ranging from **Nil** (Rafiganj) to **174 per cent** (Janakpur Road);

(ii) Coverage of toilets in regard to **Municipal Council** ranged between **86 per cent** (Barh) and **100 per cent** (19 Municipal Council); further, in respect of **Nagar Panchayats**, it ranged from **85 per cent** (Silao) to **100 per cent** (47 Nagar Panchayats);

**Appendix - 3.4 (A)**  
**(Refer: Paragraph- 3.8.1.3; Page-67)**

**Revenue of all ULBs during the financial years 2015-16 to 2019-20**

*(₹ in crore)*

	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
<b>1. Own tax revenue</b>						
a) Property Tax	129.51	177.06	178.44	219.18	176.69	880.88
b) Others						0.00
<b>Total</b>	129.51	177.06	178.44	219.18	176.69	<b>880.88</b>
<b>2. Own Non tax revenue</b>						
a) Fees etc.	16.27	36.76	33.27	33.24	29.00	148.54
b) User fee for civic services	0.00	0.00	0.00	0.00	0.00	0.00
c) Others	27.73	34.07	37.55	45.77	40.02	185.15
<b>Total</b>	44.00	70.83	70.83	79.01	69.02	<b>333.69</b>
<b>3. Grants 14<sup>th</sup> FC</b>						
a) Basic	255.85	351.86	405.11	473.68	637.79	2,124.28
b) Performance	0.00	104.22	0.00	0.00	0.00	104.22
<b>Total</b>	255.85	456.07	405.11	473.68	637.79	<b>2228.50</b>
<b>4. 5<sup>th</sup> SFC</b>						
a) Devolution	512.65	638.54	596.62	581.64	729.68	3,059.13
b) Grant	268.67	287.31	444.83	532.90	546.23	2,079.94
<b>Total</b>	781.32	925.85	1041.45	1114.54	1275.91	<b>5,139.07</b>
<b>5. Assigned Revenue</b>	195.08	207.71	180.49	280.95	211.39	<b>1,075.62</b>
<b>6. Centrally Sponsored Schemes</b>	211.23	1111.26	1059.07	1172.50	341.14	<b>4,058.20</b>
<b>7. State Sponsored Schemes</b>	654.23	547.60	657.77	648.15	581.84	<b>3,089.58</b>
<b>Grand Total</b>	<b>2,271.22</b>	<b>3,496.38</b>	<b>3,593.15</b>	<b>3,988.01</b>	<b>3,293.78</b>	<b>16,805.54</b>

*(Source: Sixth SFC Report)*

**Appendix - 3.4 (B)**  
**(Refer: Paragraph- 3.8.1.3; Page-67)**

**Expenditure of all ULBs during the financial years 2015-16 to 2019-20**

(₹ in crore)

Items	2015-16	2016-17	2017-18	2018-19	2019-20	2015-20
<b>1. Establishment</b>						
a) Salary	381.90	511.47	548.64	630.17	540.72	2,612.90
b) Pension						
c) Others (Daily wages and Administrative Expenditure)	125.20	36.38	61.63	92.73	73.66	389.61
<b>Total</b>	<b>507.10</b>	<b>547.85</b>	<b>610.27</b>	<b>722.91</b>	<b>614.38</b>	<b>3,002.52</b>
<b>2. O&amp;M of Civic Services</b>	213.17	273.11	373.28	299.87	346.25	<b>1,505.67</b>
<b>3. Centrally Sponsored Schemes</b>	211.23	1,111.26	1,059.07	1,175.50	501.14	<b>4,058.20</b>
<b>4. Support from State Budget</b>	1,121.64	1,147.34	1,300.02	1,347.52	1,411.13	<b>6,327.66</b>
<b>Grand Total</b>	<b>2,053.24</b>	<b>3,079.56</b>	<b>3,342.64</b>	<b>3,545.80</b>	<b>2,872.90</b>	<b>14,894.14</b>

(Source: Sixth SFC Report)

**Appendix-3.5**  
(Ref: Para- 3.8.4; Page-69)

**Unit-wise non-maintenance of key records**

Sl. No.	Key records (Not Maintained)	Units concerned
1	Accountant Cash book	(a) Nagar Panchayat Rajgir
		(b) Municipal Council Madhubani
2	Advance Register	(a) Municipal Council Barh
		(b) Municipal Corporation Ara
3	Asset Register	(a) Nagar Panchayat Gogardiha
		(b) Nagar Panchayat Jaynagar
		(c) Municipal Council Barh
		(d) Municipal Council Hilsa
		(e) Municipal Council Madhubani
		(f) Municipal Corporation Ara
		(g) Municipal Corporation Bihar Sharif
4	Cashier Cash book	(a) Nagar Panchayat Areraj
		(b) Nagar Panchayat Rajgir
		(c) Nagar Panchayat Sherghati
		(d) Municipal Council Barh
		(e) Municipal Council Sheikhpura
		(f) Municipal Corporation Ara
5	Demand Register	(a) Nagar Panchayat Khusrupur
		(b) Nagar Panchayat Jaynagar
		(c) Municipal Council Barh
		(d) Municipal Council Madhubani
		(e) Municipal Corporation Ara
6	Grant Register	(a) Municipal Council Barh
		(b) Municipal Council Madhubani
		(c) Municipal Council Masaurhi
		(d) Municipal Corporation Ara
7	Scheme Register	(a) Nagar Panchayat Rajgir
		(b) Municipal Council Barh
		(c) Municipal Council Madhubani
		(d) Municipal Council Sheikhpura

(Source: Inspection Report of auditee units)



**Appendix - 3.6**  
**(Refer: Paragraph- 3.8.5; Page-70)**

**Non-preparation of BRS**

(₹ in lakh)

Sl. No.	Unit	Whether BRS was Prepared	Difference b/w cash book & pass book	Reply of the unit
1	Nagar Panchayat Rajgir	No	30.81 (as on 31.03.19)	After matching the relevant amount, BRS would be prepared.
2	Nagar Parishad Madhubani	No	18.01 (as on 31.03.19)	BRS would be prepared.
3	Nagar Nigam Gaya	No	888.50 (as on 31 March 2018)	No reply was furnished
4	Nagar Panchayat Jaynagar	No	-	This would be communicated to the audit office after detection of errors.
<b>Total</b>			<b>₹ 937.32</b>	

(Source: Records of Audited units)

**Appendix- 4.1**  
**(Refer: Paragraph- 4.2; Page-75)**  
**Loss of revenue due to wrong fixation**

Sl. No.	PID No.	Name of the property	Date of acquisition	Road considered to assess present ARV	Present ARV, as per SAS form (A)	Road to be considered as per address	ARV to be fixed (B)	Present property tax (per cent of ARV) (C)	Property tax to be realised (per cent of ARV) (D)	Short realisation for one year (D-C)	Total duration	Short realisation up to FY 2019-20
1	2159298	MS SUJATA HOTEL, R BLOCK	01.04.2004	Other road	1,91,189	PMR	5,73,566	17,207	51,621	34,414	16	55,0624*
2	2157888	MS SUJATA HOTEL PVT LTD, R BLOCK	01.04.1982	Other road	15,97,709	PMR	47,93,126	1,43,794	4,31,381	2,87,587	26 #	74,77,262*
3	2112751	HOTEL NOVELTY INTERNATIONAL, FRASER ROAD	01.04.2002	Main road	1,87,200	PMR	2,80,800	16,848	25,272	8,424	18	1,51,632
4	2175450	VEENA THEATRES PRIVATE LTD, STATION ROAD	01.04.1975	Main road	2,59,538	PMR	3,89,307	23,358	35,034	11,676	26#	3,03,576
5	2091828	HOTEL ADITYA, PATNA ELECTRIC MARKET, STATION ROAD, PATNA	01.04.2012	Main road	1,37,664	PMR	2,06,496	12,390	18,585	6,195	7	43,365
<b>Total</b>												<b>85,26,459</b>

\*Since the financial year 2020-21 tax is being paid as per PMR.

# Time duration calculated from the financial year 1994-95 i.e. after notification of classification of road.

**Appendix -4.2**  
**(Refer: Paragraph- 4.2; Page-75)**  
**Loss of revenue due non imposition of penalty**

Sl. No.	PID No.	Name of the property	Date from which the revised holding tax to be realised	Road considered to assess present ARV	Present ARV as per SAS form	Road to be considered as per address	ARV to be fixed	Present property tax (per cent) of ARV)	Property tax to be realised (per cent of ARV)	Short realisation for one year	Time duration in years	Penalty 100 per cent of short realisation
1	2159298	MS SUJATA HOTEL, R-BLOCK	01.04.2014	Other Road	1,91,189	PMR	5,73,566	17,207	51,621	34,414	6	2,06,484*
2	2157888	MS SUJATA HOTEL PVT LTD, R-BLOCK	01.04.2014	Other Road	15,97,709	PMR	47,93,126	1,43,794	4,31,381	2,87,587	6	17,25,522*
3	2112751	HOTEL NOVELTY INTERNATIONAL, FRASER ROAD	01.04.2014	Main Road	1,87,200	PMR	2,80,800	16,848	25,272	8,424	6	50,544
4	2175450	VEENA THEATRES PRIVATE LTD, STATION ROAD	01.04.2014	Main Road	2,59,538	PMR	3,89,307	23,358	35,034	11,676	6	70,056
5	2091828	HOTEL ADITYA, PATNA ELECTRIC MARKET, STATION ROAD, PATNA	01.04.2014	Main Road	1,37,664	PMR	2,06,496	12,390	18,584	6,195	6	37,170
<b>Total</b>												<b>20,89,794</b>

\* Since the financial year 2020-21, tax is being paid as per PMR



**GLOSSARY OF ABBREVIATIONS**



### Glossary of Abbreviations

5 <sup>th</sup> SFC	Fifth State Finance Commission	GoB	Government of Bihar
6 <sup>th</sup> SFC	Sixth State Finance Commission	GP	Gram Panchayat
13 <sup>th</sup> FC	Thirteenth Finance Commission	GPDP	Gram Panchayat Development Plan
14 <sup>th</sup> FC	Fourteenth Finance Commission	GPMS	Gram Panchayat Management System
15 <sup>th</sup> FC	Fifteenth Finance Commission	IFMIS	Integrated Financial Management Information System
AAP	Annual Audit Plan	IRs	Inspection Reports
AC	Abstract Contingent	LBs	Local Bodies
AG	Accountant General	LFA	Local Fund Act
ARV	Annual Rental Value	MAS	Model Accounting System
ATIR	Annual Technical Inspection Report	MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
BDO	Block Development Officer	MMP	Mission Mode Project
BFR	Bihar Financial Rules	MSPNY	Mukhyamantri Shahari Payjal Nishchay Yojna
BG	Basic Grant	MoPR	Ministry of Panchayati Raj
BM Act	Bihar Municipal Act	MPR	Monthly Progress Report
BMAR	Bihar Municipal Accounting Rules	NCBF	National Capability Building Framework
BPRA	Bihar Panchayati Raj Act	PAC	Public Accounts Committee
BPRO	Block Panchayat Raj Officer	PG	Performance Grant
BPS and ZP (B&A) Rule	Bihar Panchayat Samiti and Zila Parishad (Budget & Accounts) Rule	PMC	Patna Municipal Corporation
BRGF	Backward Region Grant Fund	PRD	Panchayati Raj Department
BTC	Bihar Treasury Code	PRI	Panchayati Raj Institutions
CA	Chartered Accountant	PRIA Soft	Panchayati Raj Institutions Accounting Software
CAA	Constitutional Amendment Act	PS	Panchayat Samiti
CAG	Comptroller and Auditor General of India	RGPSA	Rajeev Gandhi Panchayat Sashaktikaran Abhiyaan
CEO	Chief Executive Officer	RGSA	Rashtriya Gram Swaraj Abhiyan
CFC	Central Finance Commission	SAS	Social Audit Society
DC	Detailed Contingent	SFC	State Finance Commission
DLFA	Director of Local Fund Audit	SLB	Service Level Benchmark
DM	District Magistrate	TGS	Technical Guidance and Support
DPC	District Planning Committee	UCs	Utilization Certificates
DPRO	District Panchayat Raj Officer	UD&HD	Urban Development & Housing Department
ELA	Examiner of Local Accounts	ULBs	Urban Local Bodies
ESC	Empowered Standing Committee	ZP	Zila Parishad
GFR	General Financial Rules		



