
CHAPTER – II

Accounting Procedures and Financial Management

2.1 Budget Estimate

Under Section 71 of Bihar Municipal Act, 1922, the commissioners at a meeting held at least two months before close of the year shall prepare in detail budget estimates showing the probable receipts and expenditures during ensuing year and objects in respect of which it is proposed to incur such expenditure. Further, Section 72 of the Act provides that budget estimates shall be lodged in office of the Commissioner for inspection of the Tax payers and for inviting suggestions from them. Thus, it is directly related to the aspirations of the people of local area.

**Non-preparation
of budget**

It was noticed that out of 27 ULBs audited, 15 ULBs² did not prepare budget between 2000-01 and 2004-05. Budgets of Ara for 2003-05, Saharsa for 2001-02 and 2003-05 and Narkatiyaganj for 2002-05 were only prepared. Three ULBs (Nagar Parishads, at Danapur and Siwan and Nagar Panchayat, Dalsinghsarai) prepared and approved the budget proposal copies of which were sent to the State Government. Due to non-production of records related to budget estimates by six ULBs viz. Patna Municipal Corporation, including Patna Water Board, Nagar Parishads at Begusarai, Chapra, Purnea and Nagar Panchayats at Bakhtiyarpur and Rajgir, the position regarding preparation and sanction of budget proposals could not be ascertained.

2.2 Un-authorized/Excess expenditure over sanctioned budget.

Eighteen ULBs incurred unauthorized expenditure of Rs. 27.55 crore during the years 2000-05 without preparing budget estimates (Appendix-II).

**Expenditure of
Rs. 27.55 crore was
incurred without
provisions in Budget**

2.3 Annual Accounts not prepared.

It was noticed in audit that except Danapur Nagar Parishad, 26 ULBs including Patna Water Board did not prepare annual Accounts for period ranging from 2 years to 29 years.

Due to non-preparation of Annual Accounts, expenditure of Rs.94.48 crore incurred during 1982-2005 by 25 ULBs (data for PMC not made available) could not be vouchsafed. (Appendix-III) Expenditure of Patna Municipal Corporation including Patna Water Board was not ascertainable due to non-totaling of cash books.

² Nagar Parishads at Kishanganj and Nagar Panchayats at Amarpur, Areraj, Chakia Dhaka, Janakpur Road, Kanti, Kateya, Makhdumpur, Marhaura, Motipur, Navinagar, Nokha, Sheohar and Sonapur.

2.4 Non-reconciliation of Cash Balance with bank/treasury.

Cash balance of only six out of 27 ULBs were reconciled with the bank/treasury as of 31 March 2005. Difference of cash balance of Rs.1.65 crore between cash book and bank/treasury in 12 ULBs was not reconciled at the close of the financial year (Appendix IV). Due to non-reconciliation of cash balance, possibility of theft, defalcation and misappropriation of funds could not be ruled out besides the authenticity of cash balance remained doubtful. Even the cash balance of cash book was not worked out by Patna Municipal Corporation and Patna Water Board. The position of reconciliation of cash balance of remaining 8 ULBs was not ascertainable due to non-availability of bank/treasury balance.

Difference of Rs. 1.65 crore between balance as per cash book and bank

2.5 Government loans and repayments thereof

- (a) None of the 27 test checked ULBs maintained Loan Registers. As such, upto date position in respect of loans, received, amount of instalments of principal and interests thereon due for repayment, amount repaid and the balance was not verifiable.

However, as per figures furnished by ULBs loans of Rs. 2.95 crore and Rs. 37.21 lakh was received by the Siwan Nagar Parishad and Narkatiyaganj Nagar Panchayat against which Rs. 5.54 crore and 65.40 lakh respectively was due for repayment as of 31 March 2005 and was not repaid. In the case of Purnea Nagar Parishad, loans of Rs. 3.85 crore was received during 1954-2005, but position of repayments was not worked out.

As the repayment of instalments of Govt loans and interests thereon was negligible, the State Government decided to deduct at source 25 percent of sanctioned amount of fresh loan against repayment of previous loans and interests due but not paid. In 14 ULBs Rs. 5.21 crore was deducted at source by the Government from sanctioned loans of Rs. 29.86 crore during 2000-2005 (Appendix V). But, adjustments of deducted amount of Rs. 5.21 crore against previous loans were neither intimated by the State Government nor adjustments exhibited by the ULBs in their accounts/records.

- (b) In PMC, loan of Rs. 1.82 crore was received from Housing and Urban Development Corporation (HUDCO) in 1999-2000 against total sanctioned loan of Rs. 3.26 crore for construction of a commercial complex and model bustee in Yarpur Domkhana. Due to non-repayment of instalments of loans, repayment liability (Principal + interest) went up to Rs. 4.99 crore as of 31 March 2005. As further instalments of loan were not released by the HUDCO, the work could not be completed and the purpose for which the loan was contracted could not also be fulfilled.

2.6 Utilisation of Loans

ULBs did not maintain Loan Appropriation Registers, due to which, amount of loans received by the ULBs was merged in the cash balance. Proper utilization of loans received for specific purpose could not, therefore, be ensured.

Utilisation certificates, if any, furnished to the sanctioning authority, were also not made available to audit.

2.7 Government Grants

Despite repeated comments in successive audit reports, the ULBs failed to maintain grant register exhibiting the position of grants received and spent during the year and balance of unutilized grants at the end of the financial year. In absence of grant register audit checks could be confined to grant files, scheme register and scheme files, so far produced before audit. Audit findings on test check of these records have been dealt with in successive paragraphs.

2.8 Non Utilization of Government grants

Scrutiny of relevant records revealed that government grants, of Rs. 5.93 crore in 23 ULBs released for specific purposes(10th and 11th Finance Commission, Swarna Jayanti Shahri Rojgar Yojna (SJSRY), National Slum Development Programme(NSDP), Integrated Development for small and medium towns(IDSMT) etc. during 1995-2005 were lying unspent as on 31 March 2005(Appendix-VI). Opening balance of unspent grants was not ascertainable due to non-maintenance of grant register. The ULBs did not review the implementation of the schemes to ascertain reasons for the non-utilization of grants.

Specific grant of Rs. 5.93 crore released by the Govt. not utilised a

Also no action was taken to refund unspent Grants to the Government.

2.9 Non-Submission of Utilisation Certificates.

Utilisation Certificates were not furnished promptly to the Government for grants received for centrally sponsored schemes, Viz. 11th Finance Commission., S.J.S.R.Y, Balika Samridhi Yojna, N.S.D.P etc released to 27 ULB's Utilisation Certificates of Rs.80.39 crore against grants received during1980-2005 were thus outstanding as on 31st March 2005 (Appendix-VII) to the State Govt.

Utilisation certificate of grant of Rs. 80.39 crore was not furnished

2.10 Diversion of Grants

Grants to the tune of Rs.1.11crore sanctioned for specific purposes were diverted by 9 ULBs towards payments of salary and allowances to staff and other normal

Grant of Rs. 1.11 crore released by the Govt. for specific purposes was diverted towards payment of salary

expenditure(Table 3).

Table 3: Details of diversion of grants by 9 ULBs during.

Sl. No.	Name of ULB	Purpose for which grant sanctioned	Amount diverted (Rupees in lakh)
1	Water Board, Patna	Water Supply	60.18
2	Purnea	Development Grants	12.21
3	Saharsa	SJSRY/NSDP	19.71
4	Bakhtiyarpur	SJSRY	2.28
5	Chakia	State Dev. Grant	1.33
6	Kanti	SJSRY/NSDP	4.16
7	Kateya	state Dev. Grant	4.37
8	Makhdumpur	NSDP	2.31
9	Motipur	SJSRY	4.42
TOTAL			110.97

Diversion of grants defeated the purpose for which grants were sanctioned and also deprived the tax-payers/beneficiaries of the intended benefits.

2.11 Outstanding advances

None of the 27 ULBs maintained Advance Ledger and Adjustment Register, making the actual position of outstanding advances unascertainable. However, from cash books, related work files and vouchers/adjustment vouchers so far made available to audit, it was observed that advances aggregating to Rs. 18.17 crore granted to 25 ULBs for various purposes between the period 1999-2005 are yet to be adjusted/recovered (Appendix-VIII).

Advance of Rs. 18.17 crore granted during 1999-2005 was outstanding for adjustment

Laxity in adjustment of advances resulted in blocking of funds for 4 years to 13 Years, as would be evident from appendix VIII Non adjustment of advances in a timely manner is fraught with the risk of misappropriation/ embezzlement.

2.12 Non furnishing of records.

Twenty Two ULBs did not produce various records (bill, Vouchers, estimates, measurement books, work registers, stock account, statement of expenditure etc.) to audit for want of which expenditure of Rs 9.47 crore could not be vouched (Appendix-IX).

Relevant records justifying expenditure of Rs. 9.47 crore was not produced

2.13. Position of Surcharge cases

According to the provisions contained in section-9 of Local Fund Audit Act, 1925, payments made contrary to law, excess and irregular payments made due to negligence and misconduct of employees and loss of stores are to be recovered through surcharge from persons responsible. Based on a test check of 6 ULBs 22 cases of surcharge involving Rs. 22.12 lakh were proposed for recovery by audit, as in table below: -

Table 4: Details of Surcharge Proposals issued during.....

Sl. No.	Name of ULB	No. of proposed surcharge cases	Amount involved (Rs. in lakh)
1	Patna Water Board	1	0.12
2	Ara	7	4.91
3	Chapra	4	4.63
4	Purnea	5	9.82
5	Saharsa	3	0.35
6	Bakhtiyarpur	2	2.29
Total		22	22.12

Surcharge notices have been issued to the persons responsible for lapses (Surcharge) through the District Magistrate (DM), but the reports of serving surcharge notices to the surchargees have not been received from the (DMs) despite reminders. For want of service reports and replies of surchargees further processing of surcharge proposals remained pending in all cases.

2.14 Amount suggested for recovery

Besides proposal for recovery by surcharge under Bihar and Orissa Local Fund Audit Act, 1925, as dealtwith in previous paragraph, excess and irregular payment amounting to Rs. 8.78 crore (Appendix X), which were detected in audit in 27 ULBs was suggested for recovery from person(s) responsible.

2.15 Deficiencies in maintenance of records

Non-maintenance of records and irregular maintenance of cashbook as noticed in 27 ULBs are summarized below-

(a) Non-maintenance of basic records.

The prescribed basic records viz Grant Register, Loan Register, Loan Appropriation Register, Asset Register, Demand and collection Register, Advance Register, Adjustment Register, Work Register, Audit Register, Un-paid Bill Register etc. were not being maintained by all the 27 ULBs.

(b) Deficiencies in maintenance of Cash Book

During test checks of cash books of 27 ULBs³, following deficiencies were noticed in 9 ULBs³.

- (i) Receipts were not recorded in the cashbook of Patna Municipal Corporation.

³ Patna Municipal Corporation, Nagar Parishad Begusarai, Chapra, Kishanganj, & Purnea, Nagar Panchayat at Bakhtiyarpur, Janakpur Road, Kanti, and Motipur,

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- (ii) Transactions were not classified under relevant heads of accounts.
 - (iii) Entries of the cashbook were not authenticated by the competent authority.
 - (iv) Cashbook was not closed and balance arrived.
 - (v) Cash in chest was never verified by the competent authority as certificate of cash verification had not been recorded in cash book..

Due to non-maintenance of basic records and irregular maintenance of cash books, possibilities of misappropriation/fraud/embezzlement in ULBs may not be ruled out.