

## CHAPTER-II

### FINANCIAL MANAGEMENT AND REPORTING

#### 2.1 Fund Flow Arrangement

**(A)** The Panchayat Raj Institutions receive funds mainly from the state government's consolidated fund as per State Finance Commission recommendation, tied funds from central government for execution of Centrally Sponsored Schemes (CSS), tied funds received directly from centre/state under the MP-LADs and MLA-LADs schemes, grants-in-aid from the Finance Commissions recommendation. The fund-wise source and its custody for each tier is given in **Table 2.1**

**Table-2.1: Fund flow mechanism in PRIs**

Nature of Fund	ZPs		PSs		GPs	
	Source of fund	Custody of Fund	Source of fund	Custody of Fund	Source of fund	Custody of Fund
Own receipt	Lease/rent of ZP properties	Treasury/Bank	-	-	-	-
Assigned revenue/SFC	State Government	Treasury	State Government	Treasury	State Government	Treasury
CFC/CSS	GOI	Bank	GOI	Bank	GOI	Bank
State Plan	State Government	Treasury	State Government	Treasury	State Government	Treasury

Note:-1) PSs & GPs do not have their own source of revenue as the State Government have not yet notified minimum and maximum rates of taxes, tolls & fees etc. to be imposed by them despite recommendation of the State Finance Commissions.

2) CFC/CSS typically move from MoRD to DRDA accounts, then to the three respective tiers of PRIs on a predetermined formula. The CSS require maintenance of separate bank accounts and submission of separate audited utilization certificate.

**(B)** The PRIs did not maintain annual accounts, receipts and payment accounts, and related registers. So, it was difficult to ascertain an overall picture of the PRI's financial situation. Audit did, however, attempt a compilation of the Funds Available (FA) and Expenditure (EX) in important rural social development schemes in the selected 30 ZPs, 122 PSs and 599 GPs (**Table-2.2**) on the basis of records produced by the these PRIs.

**Table 2.2: Fund Flows for important Rural Social Development Schemes**

(₹ in Crore)

Name of Scheme	Zila Parishad			Panchayat Samiti			Gram Panchayats			Total unspent balance
	FA	Ex	UB	FA	Ex	UB	FA	Ex	UB	
Xth F.C.	0.17	0.05	0.12	2.04	1.74	0.30	5.73	5.42	0.31	0.73
XIth F.C.	40.56	39.61	0.95	9.53	8.13	1.40	33.68	32.40	1.28	3.63
XIIth F.C.	766.41	731.64	34.77	15.00	10.79	4.21	61.87	54.24	7.63	46.61
EAS/JRY/SGRY	168.35	159.13	9.22	210.28	193.81	16.47	86.36	82.93	3.43	29.12
MNREGS	318.87	276.07	42.80	248.26	220.83	27.43	94.21	79.08	15.13	85.36
BRGF	472.68	294.27	178.41	3.94	1.65	2.29	18.92	9.92	9.00	189.70
Other (MP, MLA, PHEd, etc.)	21.59	18.19	3.40	18.90	17.41	1.50	6.75	5.96	0.79	5.69
Own Resources and Misc. receipts	158.74	87.22	71.52	-	-	-	-	-	-	-
<b>Total</b>	<b>1947.37</b>	<b>1606.18</b>	<b>341.19</b>	<b>507.956</b>	<b>454.36</b>	<b>53.60</b>	<b>307.52</b>	<b>269.95</b>	<b>37.57</b>	<b>360.84</b>

Abbreviation: FA-Funs Available, It includes closing balance of last year. EX-Expenditure, UB-Unspent Balance  
ZP=2004-05 to 2008-09, PSs & GPs=2001-02 to 2008-09

## Revenue Management

### 2.2 Non-realisation of revenue

The Zila Parishads collect revenue from their own sources viz. rent of shops, Dak Bunglow(DB)/Inspection Bunglow(IB), settlement of pounds, ghats, ferries, road side land & trees, bullock cart registration fee etc. Scrutiny of related records revealed that Zila Parishads failed to realize revenue from above sources.

#### 2.2.1 Non/Short credit of revenue to the tune of ₹ 5.73 lakh

In five ZPs against a total collection of ₹10.21 lakh, the collecting staff deposited ₹2.87 lakh only retaining ₹7.34 lakh in hand. Out of this ₹1.61 lakh was deposited in course of audit and a sum of ₹5.73 lakh remained to be realized from the officials concerned as detailed in the Table 2.3:

**Table-2.3: Non/short credit of collection amount**

(₹ in lakh)

Sl. No.	Name of Z.P.	Amount collected	Amount deposited	Amount of non/short deposit	Amount deposited at the instance of audit	Balance to be deposited	Period of collection	Particulars of collection
1	Siwan	0.22	0.00	0.22	0.20	0.02	06-07 to 08-09	Misc. Receipt
2	Darbhanga	0.56	0.00	0.56	0.29	0.27	06-07 to 08-09	Misc. Receipt
3	Madhubani	6.51	0.00	6.51	1.12	5.39	06-07 to 08-09	Misc. Receipt
4	Kaimur	1.12	1.10	0.02	0.00	0.02	07-08 to 08-09	Misc. Receipt
5	Motihari	1.80	1.77	0.03	0.00	0.03	07-08 to 08-09	Misc. Receipt
	<b>Total</b>	<b>10.21</b>	<b>2.87</b>	<b>7.34</b>	<b>1.61</b>	<b>5.73</b>		

### 2.2.2 Loss of ₹ 2.66 crore due to non-realisation of settlement amount

The assets of Zila Parishad viz. bus stand, ferry ghat, pond, road side land and trees etc. are settled through bid system annually. The settlement amount is to be realized at the time of settlement from the bidders and where the amount is considerably high it can be recovered in two to three instalments. It was noticed in audit that dues of settlement amount to the tune of ₹ 2.66 crore were not recovered in seven ZPs as detailed below:

**Table-2.4: Non-realisation of dues of settlement of sairats/shops**

Sl. No.	Name of ZP	Dues of settlement (₹ in crore)	Period of settlement	Particulars of settlement
1	Darbhanga	0.03	07-08 to 08-09	Ghats, pond
2	Saharsa	0.02	04-05 to 08-09	Ghat, pond, ferries
3	Gaya	0.02	04-05 to 08-09	Bus stand, subzi mandi
4	Kaimur	0.03	07-08	Bus stand
5	Motihari	0.05	07-08 to 08-09	Bus stand, Ghat, Bazar
6	Rohtas	0.01	07-08 to 08-09	Taxi stand
7	Patna	2.50	94-95 to 08-09	Shops
	<b>Total</b>	<b>2.66</b>		

### 2.2.3 Loss of ₹3.20 lakh due to non-realisation of stamp fee

As per instructions issued to PRIs by the Chief Secretary, Govt. of Bihar vide letter no.1920 dated:-14.08.2002 and Inspector General of Registration vide letter no. 549 dated: 15.03.2005 stamp fee at the rate of 3% of settlement amount was to be realized in all cases of settlement of bus stand, haat, bazaar, ferry and ghats, shops etc. from the persons in whose favour the settlement is made. Scrutiny of records disclosed that five ZPs did not realize the stamp fee resulting in loss of revenue of ₹3.20 lakh as shown in the table below:-

**Table-2.5: Loss of revenue due to non-realisation of stamp fee**

Sl. No.	Name of Zila Parishad	Period of settlement	Amount of settlement (₹ in lakh)	Stamp fee @ 3% of settlement amount (₹ in lakh)	Particulars of settlement
1	Gaya	05-06 to 08-09	23.61	0.71	Bus stand, sabzi mandi, tempo stand
2	Bhojpur	07-08 to 08-09	14.57	0.44	Vacant land, ghat
3	Arwal	06-07 to 08-09	15.77	0.47	Bus stand
4	Kaimur	06-07 to 08-09	18.05	0.54	Bus stand
5	Supaul	06-07 to 08-09	34.84	1.04	Ghat, Bazar, Bus stand
	<b>Total</b>		<b>106.84</b>	<b>3.20</b>	

### 2.2.4 Non-realisation of rent of shops

The Zila Parishads had constructed shops either from own resources or under self-financing schemes and received rent from it. Audit scrutiny revealed that ₹ 4.67 crore pertaining to various periods remained unrealized in the following ZPs:

**Table- 2.6: Non-realisation of rent of shops**

Sl. No.	Name of Z.P.	Dues of rent (₹ in crore)	Period of dues
1	Siwan	0.15	06-07 to 08-09
2	Darbhangha	0.12	Up to Dec'09
3	Shiekhpora	0.03	06-07 to 08-09
4	Sitamarhi	0.08	02-03 to 08-09
5	Arwal	0.22	Up to Oct'09
6	Jehanabad	0.26	07-08 to 08-09
7	Saran	0.48	87-88 to July 2009
8	Madhubani	0.62	Up to March 2009
9	Saharsa	0.61	04-05 to 08-09
10	Nalanda	0.18	Up to March 2009
11	Patna	0.43	Up to March 2009
12	Motihari	0.33	Up to March 2009
13	Kaimur	0.62	Up to March 2009
14	Rohtas	0.13	Up to March 2009
15	Lakhisarai	0.41	Up to March 2009
	<b>Total</b>	<b>4.67</b>	

**2.2.5 Loss of ₹ 0.37 crore due to non-realisation of rent from govt. offices**

Four Zila Parishads failed to realize ₹0.37 crore on account of rent from various government offices situated on Zila Parishad land. Details are as follow:-

**Table-2.7: Non-realisation of rent from govt. offices**

Sl. No.	Name of Z.P.	Dues of rent (₹ in crore)	Particulars	Period of dues
1	Saharsa	0.07	Fire station, quarters	Up to March'09
2	Nalanda	0.02	NREP offices	Up to March'09
3	Rohtas	0.21	Govt. offices	Up to March'09
4	Supaul	0.07	Inspection Bunglows/Quarters	Up to March'09
	<b>Total</b>	<b>0.37</b>		

**2.3 Loss of ₹1.34 lakh due to irregular remission by the Chief Executive Officer**

Jehanabad Bus Stand was settled for the year 2006-07 with a contractor at ₹8.25 lakh. As per terms of settlement 25% of bid amount was to be deposited at the time of settlement and rest 75% in eleven instalments. However, the contractor deposited ₹6.91 lakh only and instead of depositing the balance amount he applied for remission of dues on the ground that buses did not ply for many days. The DDC-cum-CEO of the Zila Parishad allowed remission of ₹1.34 lakh (₹0.69 lakh on 16.06.06 and ₹0.65 lakh on 16.05.07)

The DDC-cum-CEO was not competent to grant remission. Rule 87 of the Bihar Panchayat Samiti and Zila Parishad (Budget and Accounts) Rules, 1964 requires approval of the govt. for writing off any loss of money, stores or other property. But, the matter was not sent to the govt. for approval. Thus, the irregular remission by DDC-cum-CEO, Zila Parishad sustained a loss of ₹ 1.34 lakh.

#### **2.4 Misappropriation of ₹0.23 crore in Panchayat Samiti, Punpun**

In Panchayat Samiti, Punpun a sum of ₹0.23 crore was withdrawn by the Nazir during 09.10.06 to 28.11.07 from the Patliputra Central co-operative Bank, Punpun account no.-2401 maintained for transaction of NAREGS grants. But entry regarding withdrawal was not found into the Cash Book. Expenditure detail against the withdrawn amount was not produced to audit. The said amount was withdrawn through cheques; and out of total ₹0.23 crore; a sum of 1.54 lakh was withdrawn by the Nazir through self-cheques. The Nazir did not reply the purpose of withdrawn amount.

#### **2.5 Advances of ₹ 104.18 crore lying unadjusted/unrecovered**

In violation of rule 90 of BPS & ZP (B&A)R, 1964 the authorities of PRIs continued to pay second, third and fourth advances to a work without ensuring adjustment of first or earlier advance. In 13 Zila Parishads it was noticed that against outstanding advance of ₹22.46 crore<sup>5</sup>, adjustment of advance was made merely of ₹3.42 crore<sup>6</sup> as of March 2010. The mounting position of advance clearly reflects that the authorities had not taken effective steps for adjustments/recovery of advance and remained interested in only granting advances to a few executing agents particularly to the Assistant Engineers, the Junior Engineers, the Office Assistants etc.

In 81 Panchayat Samitis and 383 Gram Panchayats advances for the period 2001-02 to 2008-09 to the tune of ₹85.14 crore (₹61.07 crore in PSs and ₹24.07 crore in GPs) remained unadjusted, which was paid for execution of works. Effective steps for adjustment/recovery of advances by the Executive Officer of the PS and Mukhias of the GPs were not taken.

#### **➤ Huge advance outstanding**

Scrutiny of records of Zila Parishad, Kaimur revealed that a junior engineer was paid advances of ₹0.28 crore between 24.05.2006 and 14.10.2006 in fifteen instalments without getting adjusted the earlier advances. He was expired on 27.11.2006. Thus, due to non-observance of rules regarding grant of advances, ₹0.28 crore resulted in huge outstanding against him.

#### **2.6 Expenditure on idle staff**

➤ In six Zila Parishads viz Arwal, Jehanabad, Sitamarhi, Sheikhpura, Patna and Nalanda, the medical staff remained idle for more than two years as neither any

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<sup>5</sup> Supaul(641.44 lakh),Gaya(3.92 lakh),Patna(606.49 lakh), Nalanda(41.70 lakh), Saharsa(62.27 lakh), Bhojpur (2.15 lakh), Madhubani (2.65 lakh), Kaimur(48.17 lakh) Rohtas(98.74 lakh), Sitamarhi(6.99 lakh), Darbhanga(59.86 lakh), Sheikhpura (1.19 lakh), Saran (669.97 lakh)

<sup>6</sup> Saharsa (50.40 lakh),Kaimur(12.74 lakh),Saran(279.35 lakh)

medicine nor any equipment were supplied to the dispensaries. As such utilisation of services of the medical staff viz. Vaidyas, Hakims, Homeopathic Doctors and compounders etc. remained doubtful. The six ZPs had expended ₹1.71 crore<sup>7</sup> towards their pay and allowances during 2004-05 to 2009-10. The Z.P. authorities failed to utilize the services of the medical staff despite regular expenditure over their salaries.

- ZP Motihari appointed five assessors for collection of tax from 'tyre cart'. Tax tokens were to be supplied by the ZP for purpose of tax collection. Audit scrutiny revealed that tax tokens were supplied to the assessors only after passing nine months and eight months in the year 2007-08 and 2008-09 respectively. The assessor remained idle for nine and eight months respectively in these years. Had the tokens supplied in the beginning of the year the tax collection would have been increased. Thus, the Zila Parishad failed to utilize service of these assessors despite payment of ₹6.08 lakh on their salary.

## Financial Reporting

### 2.7 Maintenance of Accounts by PRIs

The PRIs were following the Panchayat Samities and Zilla Parishads (Budget and Accounts) Rules, 1964, which have not been reviewed according to contemporary best practices. The Budget and Accounts Formats prescribed by the C&AG of India, though accepted by the State Government, were not operationalised at the PRIs level for want of issue of Government orders in this regard. Even existing provisions are not being followed for maintenance of accounts as detailed below:

- (A) It is also observed that as per Panchayat Raj Act, 2006, Chief Accounts Officer was to be appointed in each Zilla Parishad but the said appointment had not been made so far. Qualified staffs for handling accounts were also not posted so far. Due to above deficiencies, the transactions in PRIs lacked transparency and accountability of the executives could not be ensured.
- (B) As per Section 31 of Bihar Zila Parishad and Panchayat Samiti Act 1961 monthly statement in the prescribed form of income and expenditure of Panchayat Samiti is to be submitted by Block Development Officer to the Zila Parishad and Collector and abstract of every Annual Account of Panchayat Samiti shall be prepared in prescribed form and submitted to the State Government and to Zila Parishad within two months of the close of the financial year. In case of Zila Parishad Annual Accounts is to be

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<sup>7</sup> Arwal (15.52 lakh), Jehanabad (23.33 lakh), Sitamarhi (16.20 lakh), Sheikhpura (13.01 lakh), Patna (75.04 lakh), Nalanda (27.73 lakh)

submitted to State Government. But out of 30 ZPs, 122 PSs and 599 GPs have been discussed in this report; none of the PRIs prepared Annual Accounts for the year upto March 2008 and March 2009. In the absence of Annual Accounts, the position of opening balance, closing balance, receipt and payment under several heads, diversion of grants etc. could not be ascertained.

- (C) As per Zila Parishad and Panchayat Samiti (Budget and Account) Rules 1964 the annual budget estimates of the Panchayat Samiti/Zila Parishad is to be prepared on the basis of the average of its last three years actuals of income and expenditure. The budget of the Samiti is to be approved by the Zila Parishad /Collector as the case may be by the 25<sup>th</sup> March of every year. The budget of Zila Parishad is to be sanctioned by Parishad itself not later than 15<sup>th</sup> February and sent to the Adhyaksha and the Collector by 20<sup>th</sup> February and finally the budget is forwarded to the State Government by the Adhyaksha before 1<sup>st</sup> March every year. None of the Panchayat Samities and Gram Panchayats covered in audit had prepared budget estimates. Out of 30 ZPs, 13 ZPs<sup>8</sup> did not produce budget file and copies of budget to audit (One ZP, Sheohar prepared budget but time schedule was not followed for passing the budget estimate and copies of the same was not sent to State Government). ZP Supaul and ZP Patna did not produce budget for the period 2006-07 and 2007-08 respectively. Therefore, it could not be ascertained in audit whether total expenditure incurred by these PRIs was within budgetary provisions. Six Zila Parishads viz. Jehanabad, Nalanda, Madhubani, Sitamarhi<sup>9</sup>, Sheikhpura, Lakhisarai<sup>10</sup> and Gaya did not prepare budget. Incurring of expenditure without budget is not a healthy financial practice as it undermines the importance of prioritization of resources, besides diluting exercise of control over receipt and expenditure.

## 2.8 Upkeep of records

- The basic records/registers prescribed for maintenance by Zila Parishad and Panchayat Samiti under rule 77 of the Bihar Panchayat Samitis and Zila Parishad (Budget and Accounts) Rules 1964 viz. Govt. Grant Register, Govt. Loan Register, Loan Appropriation Register, Advance Ledger, Deposit Ledger, Register of outstanding Advance, Register of works, Asset Register etc. were

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Araria, Nawada, Muzaffarpur, Madheplura, Munger, Banka, Kishanganj, Begusarai, Vaishali, Buxar, Aurangabad, Patna, Supaul

<sup>9</sup> for 2008-09 not prepared

<sup>10</sup> prepared only for 2006-07

not maintained. In Panchayat Samitis and Gram Panchayats only cash books and scheme registers were being maintained.

- All the PRIs were maintaining several cash books but the transactions made in said cash books were not being compiled in one main cashbook which resulted in non-depiction of actual position of finance. The cash books were not maintained properly as the receipt and expenditure were neither codified nor classified and the closing balance was not arrived at and analyzed.
- The bank reconciliation statements were also not prepared by the PRIs, in order to detect cases of omission of entry in the cash book and treasury/bank pass books, cases of wrong debit and wrong credit, interest allowed and commission charged by the bank but not entered in cash book etc. Most of the audited PRIs did not have updated bank pass books and the Treasury pass books were not written or certified by the Treasury Officer due to which the position of closing balance in Treasury/Bank remained unascertainable.
- As per rule 80 (d) of Budget and Accounts Rules, 1964 at the end of each month, Block Development authority/Secretary shall verify the cash balance in the chest with the balance of the subsidiary cash book and the cashier's cash book and record a signed and dated certificate. The audited PRIs could not produce Cash verification report, if any.
- As per Rule 128 a physical verification of stores shall be carried out at least once in six months by the B.D.O./Secretary or the head of an institution or the authority in charge of any scheme in collaboration with Samiti Overseer and in token of his having done so, he shall record a certificate and make note of any other salient facts regarding excess, shortage, unusual depreciation of stores, etc. The audited PRIs could not produce physical verification report, if any.

### **2.9 Status of presentation of GPFS in PRI**

Financial reporting in the public sector is a key element of accountability. It requires preparation of General Purpose Financial Statements (GPFS) for each accounting entity. The GPFS are intended to meet the needs of users who look to financial reports for performance. They may be financial statements presented separately or within another document such as annual report. The GPFS are accounting statements prepared to communicate information about financial performance and position.



The Bihar Panchayat Samiti and Zila Parishad (Budget and Account) Rules, 1964 requires PRIs to be guided by the following financial management and reporting principles:

- a) The Block Development Officer/Secretary shall communicate the circumstances to the Samiti/Parishad which shall deem necessary or expedient to cover any expenditure not covered by a budget grant. (Rule 28)
- b) The Pramukh/Adhyaksha of the Samiti/Parishad shall report cases of loss of money, stores or other property by embezzlement, theft, fire or otherwise to the Examiner of Local Accounts, Bihar and to the Administrative Department. No money stores or other property lost by embezzlement, theft, and fire or otherwise shall be written off from the accounts except with the sanction of the Government. (Rule 87)
- c) The Samiti/Parishads shall render such accounts and submit such returns to the State Government and other officers as may be prescribed by the government. (Rule 115).
- d) Soon after the close of the month the Block Development Officer/Secretary should scrutinize the accounts of the Samiti/Parishad to see if all accounts, records including subsidiary accounts like contractor's ledgers, works abstract, vouchers etc, have been kept in order. A report of the scrutiny should be submitted quarterly to the Samiti/Parishad indicating the irregularities noticed and the action taken to remedy them.(Rule 139)

Govt. of Bihar has not revised Budget and accounting rules to adopt the preparation of GPFS. The existing rules require preparation of statement of account head wise receipts and expenditure on monthly and annual basis. The significant omission in this regard is the absence of statement of management responsibility about correctness of accounts and adequacy and effectiveness of internal control. The financial statements prepared by the PRIs do not have 'notes to accounts' to explain significant accounting policies, disclosures on assets and liabilities, financial and physical performance etc.

## **2.10 Recommendation**

- a) To augment the own revenue of PSs and GPs Govt. must notify minimum and maximum rates of taxes, tolls & fees etc. to be imposed by them as recommended by State Finance Commissions,

- b) Realization of settlement amount, stamp fee, rent etc. may be ensured and legal proceedings may be initiated against the person, who failed to perform their duty,
- c) Rules for maintenance of accounts is required to be revised as per CAG's recommendations,
- d) Proper records management must be ensured in PRIs.