

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



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



## Chapter - I

### An Overview of the Functioning of the Panchayati Raj Institutions in 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, elections, reservation of seats for Schedule Caste/Tribes and women and devolution of fund, functions and functionaries to PRIs. The PRIs aim to promote participation of people and effective implementation of rural development schemes for economic development and social justice in various areas including those in relation to the matters listed 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 three-tier system of PRIs viz., Gram Panchayat (GP) at village level, Panchayat Samiti (PS) at block level and Zila Parishad (ZP) at the district level to enable them to function as institutions of self-government. As of March 2016, there are 8,969 PRIs<sup>1</sup> having 1,35,725 elected representatives in the State. The last general election to the elected bodies of PRIs was held during April-May 2016.

#### 1.2 State Profile

Bihar is the thirteenth largest State in the country with an area of 94,163 sq. km. and constitutes 2.86 *per cent* of total geographical area of the country. The population growth in Bihar in the last decade was 25.4 *per cent*. The rural population in the State was 9.23 crore (89 *per cent*) out of total population of 10.41 crore. The comparative 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	National Value	Rank amongst all States
Population	Crore	10.41	121.09	3
Population Density	Per sq. km.	1,106	382	1
Rural Population	Crore	9.23	83.31	2
Gender Ratio	1000 males	918	943	23
Literacy	Per cent	61.80	74.04	29
Number of districts	Number	38	686	3
Number of PRIs	Number	8,969	2,56,116	11
Human Development Index (HDI), 2011	Value	0.447	0.504	18
Decadal growth rate	Per cent	25.42	17.64	3

(Source: Census 2011, Thirteenth Finance Commission Report, Planning Commission Report, Government of India and United Nations Development Programme Report 2011)

<sup>1</sup> 38 ZPs, 534 PSs and 8,397 GPs

The position of PRIs in Bihar in terms of number, average area and average population is given in **Table 1.2** below:

**Table - 1.2: Position of PRIs**

Level of PRIs	Number	Average Area per PRIs (Sq. Km.)	Average Population (in lakh)
		As per 2011 Census	
Zila Parishad	38	2,427.83	24.30
Panchayat Samiti	534	172.77	1.73
Gram Panchayat	8,397	10.99	0.11

(Source: Website of Planning and Development Department, Bihar)

### 1.3 Organisational set-up

At the State level, Panchayati Raj Department (PRD) co-ordinates and monitors the functioning of 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.

The Deputy Development Commissioner (DDC) and the Block Development Officer (BDO) are the executive heads of the ZP and the PS respectively. The Panchayat Secretary is in-charge of the office of the GP and is also responsible for maintenance of accounts and records at GP level. The organisational structure of PRIs is depicted in **Chart - 1.1 & 1.2** below:

**Chart – 1.1: Elected Bodies**

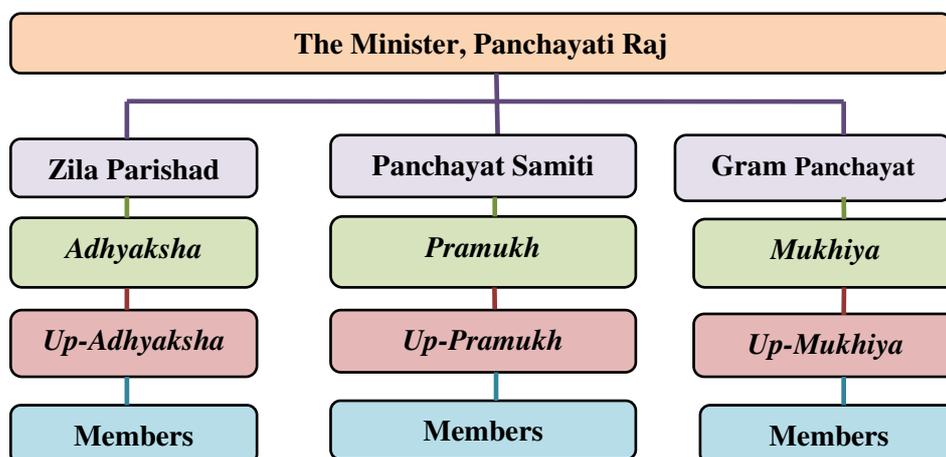
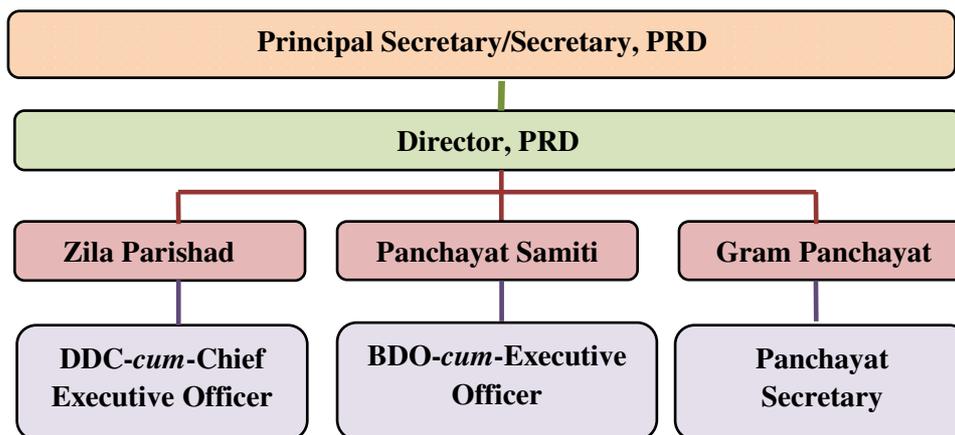


Chart – 1.2: Administrative set-up



(Source: BPRA, 2006 and [www.biharprd.bih.nic.in](http://www.biharprd.bih.nic.in))

## 1.4 Functioning of PRIs

### 1.4.1 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:

- preparation of plans for economic development and social justice;
- implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule of the Constitution; and
- powers to impose taxes and constitute funds for crediting all moneys of the panchayats.

Besides, Section 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.

### 1.4.2 Powers of the State Government

The BPRA, 2006 entrusts the State Government with following powers to enable it to monitor proper functioning of the PRIs. A brief summary of powers and roles of the State Government in respect of PRIs is given in **Table 1.3** below:

**Table - 1.3: Powers of the State Government**

<b>Authority</b>	<b>Powers of the State Government</b>
<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.
<b>Section 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 BPRA, 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 year, 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>Section 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>Section 18(5), 44(4) and 70 (5)</b>	<b>Removal from post:</b> The State Government may remove <i>Mukhiya/Up-Mukhiya, Pramukh/Up-Pramukh and Adhyaksha/Upadhyaksha</i> from their post on the ground of absence from the meeting, lack in performing duties as per BPRA, 2006, misusing their powers and convicted and absconded for more than six months after giving them opportunity to represent themselves.

(Source: BPRA, 2006)

### **1.4.3 Devolution of Functions, Funds and Functionaries to PRIs**

The Seventy-third Constitutional Amendment Act envisaged that all 29 functions along with funds and functionaries mentioned in the Eleventh Schedule of the Constitution would be eventually transferred to the PRIs through suitable legislation of the State Government.

#### **Devolution of Functions**

Twenty departments of GoB transferred their respective functions to the PRIs as of January 2017. The PRIs were entrusted 621 types of responsibilities by various departments of GoB from time to time which include selection of beneficiaries, financial powers, preparation of plans, construction of infrastructure, management of programmes, monitoring works, maintenance of assets etc. A meeting (July 2014) of all the Principal Secretaries/Secretaries of GoB decided to frame Operational Guidelines for effective devolution of powers to PRIs. In first phase 12 Departments were selected for framing the Operational Guidelines. However, only two departments framed the Operational Guidelines (January 2017). The Fifth State Finance Commission (Fifth SFC) observed (February 2016) that the progress so far on Department wise and subject wise activity mapping was unsatisfactory and Parastatal Bodies (PBs) were also carrying the functions of PRIs.

### **Devolution of Funds**

No taxes were levied and collected by the PRIs as of January 2017 despite recommendation of the Fourth State Finance Commission (Fourth SFC) and provisions of the BPR, 2006 as the State Government did not notify the rate of taxes. The Monitoring Officer, PRD stated (January 2017) that framing of Regulation for taxation by PRIs is under process.

Untied grants were made available to three levels of PRIs under Fourteenth Finance Commission (FFC), Fifth SFC and *Rajeev Gandhi Panchayat Sashaktikaran Yojana* (RGPSY) during 2015-16. Backward Region Grant Fund (BRGF) was delinked from the support of the Central Government from 2015-16. As per Fifth SFC report, funds available to the PRIs from various sources were grossly inadequate for their assigned functions. Further, they were not able to utilise even the allocated funds due to capacity constraints viz., serious deficiencies in skilled manpower, office space, IT facility, equipment etc.

### **Devolution of Functionaries**

The ZPs in the State did not have adequate staff to discharge the devolved functions and 79 per cent<sup>2</sup> of sanctioned posts were vacant as of January 2017. In two ZPs<sup>3</sup>, men-in-position was less than 10 per cent of sanctioned strength. At GP level, 3,160 posts of the Panchayat Secretary (38 per cent of the total 8,397 posts) were vacant as of 31 March 2016. The Fifth SFC while observing the acute shortage of staff at all levels of PRIs, recommended a revised staffing pattern, which was not followed as of December 2016.

## **1.5 Formation of various Committees**

The BPR, 2006 provides that PRIs shall constitute the various committees by election from among its members for effective discharge of its function.

### **1.5.1 Standing Committees**

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

**Table - 1.4: Standing Committees**

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 BPR 2006)

<sup>2</sup> Total Sanctioned strength - 3,974; Men-in-position - 844; Vacancy - 3,130  
<sup>3</sup> Buxar and Supaul

### 1.5.2 District Planning Committee

Article 243ZD of the Constitution of India and Section 167 of the BPR, 2006, envisage 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 for the district as a whole. Further, the Chairperson of every DPC shall forward the development plan as recommended by such Committee to the State Government.

Though, the DPCs were constituted by all the districts of the State, Fifth SFC observed that planning was limited only to BRGF scheme and Finance Commission funds due to lack of cooperation of the line departments and low capacity of PRIs and DPCs to plan. Thus, the purposes of the Article 243ZD and provisions made in BPR, 2006 were only partially fulfilled.

## 1.6 Audit Arrangements

### 1.6.1 Primary Auditor

Sections 31, 59 and 86 of BPR, 2006 (amended in May 2011) provide for audit of GP, PS and ZP respectively by the Comptroller and Auditor General (CAG) of India or its authorised authority and a copy of the Report will be forwarded to respective PRIs within a month from the date of completion of audit.

GoB declared (2006) the Examiner of Local Accounts (ELA), Bihar as the prescribed 'authority' for audit of PRIs. Accordingly, audit of the accounts of PRIs in Bihar was conducted by the ELA as primary auditor under the supervision of the Accountant General (Audit), Bihar, as per provisions of the Bihar and Orissa Local Fund Audit (LFA) Act, 1925.

During 2015-16, out of 8,969 PRIs in the State, audit of 1,102 PRIs was conducted by ELA under AG (Audit), Bihar. Besides, audit of PRIs was also conducted by the Directorate of Local Fund Audit (DLFA) constituted by Finance Department, GoB without overlapping the units audited by ELA. Details of audit conducted by ELA, office of AG (Audit) and by DLFA of GoB are given in **Table 1.5** below:

**Table 1.5 Status of audit conducted by ELA, AG (Audit) and DLFA, GoB**

PRIs	Total No. of units	No. of units audited by ELA	No. of units audited by DLFA	No. of reports received from DLFA to AG (Audit) for guidance
ZPs	38	38	11	4
PSs	534	158	19	4
GPs	8397	906	97	6
<b>Total</b>	<b>8969</b>	<b>1102</b>	<b>127</b>	<b>14</b>

(Source: information furnished by DLFA and Inspection Reports at ELA office)

During 2015-16, DLFA conducted audit of 127 PRIs<sup>4</sup>. Out of these, reports of 14 PRIs were received (September 2015) in the office of the ELA for guidance and comments on these reports were communicated to DLFA in December 2015.

<sup>4</sup> ZP - 11, PS - 19 and GP - 97

### 1.6.2 Audit by Comptroller and Auditor General of India

Thirteenth Finance Commission (Th FC) while emphasizing the recommendations of Eleventh Finance Commission regarding audit of panchayats by the CAG of India had recommended that the CAG must be entrusted with Technical Guidance and Support (TGS) over the audit of all the LBs at every tier and his Annual Technical Inspection Report as well as Annual Report of DLFA must be placed before the State Legislature. The Fourteenth FC had also recommended that the initiatives made by the previous Finance Commissions regarding improvement in maintenance of accounts of LBs and their audit under TGS arrangement by the CAG should be continued.

Consequently, GoB notified (June 2015) the establishment of DLFA and its functioning since 11 June 2015. The Finance Department intimated (December 2015) that GoB had accepted the Standard Terms and Conditions under Regulations on Audit and Accounts, 2007 for audit of LBs under TGS arrangement. Audit under TGS arrangement commenced from December 2016.

## 1.7 Response to Audit Observations

### 1.7.1 Poor response to Inspection Reports

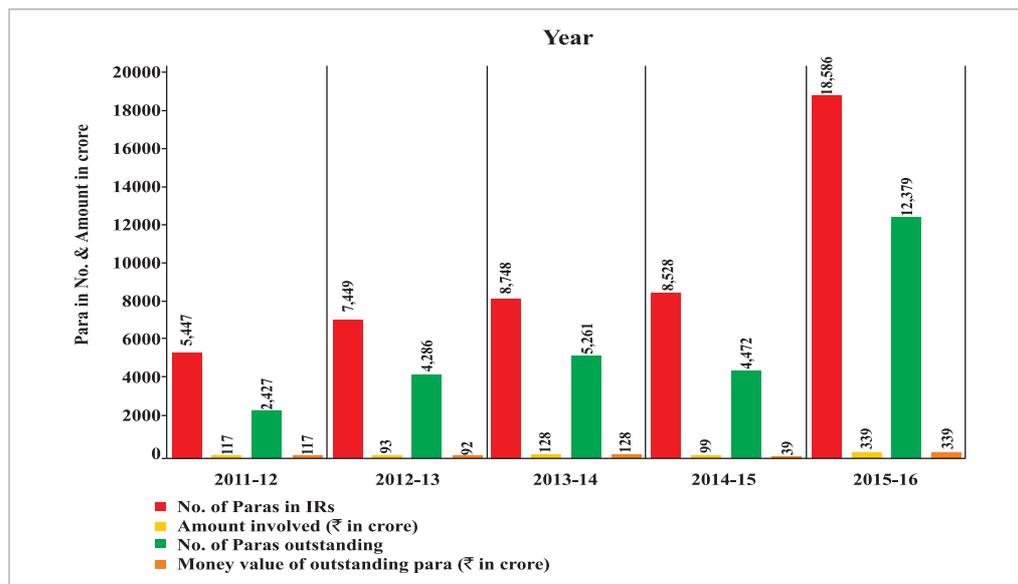
After completion of audit, Inspection Reports (IRs) containing audit findings were issued to the PRIs concerned with a copy to the State Government. The CEOs of the ZPs, the EOs of PSs and the *Mukhiyas* of GPs were required to respond to observations contained in the IRs and send compliance report to the ELA within three months. But, status of compliance of audit paras outstanding was not satisfactory as evident from increasing number of paragraphs outstanding as on 31 March 2016. Details of paragraphs outstanding for the last five years (2011-16) are given in **Table 1.6** and **Chart – 1.3** below:

**Table – 1.6: Outstanding paragraphs in PRIs for the last five years**

Year	No. of IRs	No. of paras in IRs	Amount involved (₹ in crore)	No. of paras settled	Amount of settlement (₹ in crore)	No. of paras outstanding	Money value of paras outstanding (₹ in crore)
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2011-12	518	5447	117.15	3020	0.54	2427	116.61
2012-13	416	7449	92.80	3163	0.44	4286	92.36
2013-14	503	8748	128.12	3487	0.00	5261	128.12
2014-15	574	8528	99.14	4056	59.91	4472	39.23
2015-16	1454	18586	339.01	6207	0.01	12379	338.99
<b>Total</b>	<b>3465</b>	<b>48758</b>	<b>776.22</b>	<b>19933</b>	<b>60.90</b>	<b>28825</b>	<b>715.31</b>

(Source: Inspection reports of LBs)

Chart – 1.3



It was evident from the **Table 1.6** and **Chart – 1.3** above that a large number of paragraphs remained outstanding during 2011-16. Out of total 48,758 audit paragraphs only 19,933 (41 per cent) paragraphs were settled and 28,825 paragraphs involving ₹ 715.31 crore were remained outstanding as of 31 March 2016.

The high number of outstanding old IRs and paragraphs therein and its increasing trend indicated weak internal controls in PRIs.

### 1.7.2 Compliance to the ELA's Annual Audit Reports

The Finance Department, GoB had constituted (March 2010) three-tier Committees – High Level, Departmental Level and District Level for review/compliance of the ELA's Annual Audit Reports. The District Level Committee<sup>5</sup> had the responsibility to ensure compliance of audit paragraphs/reports received from PRIs and ULBs of that district. The Department Level Committee<sup>6</sup> had to review the status of compliance made by the District Level Committees. The High Level Committee<sup>7</sup> had to meet once in six months to review the functioning of District and Department Level Committees.

It was observed that seven District Level Committee meetings were held for PRIs during 2015-2016 and only one Department Level Committee meeting was held in July 2015 whereas, High Level Committee meeting was not held since August 2013. Thus, the purpose of constituting three-tier Committees was defeated.

### 1.7.3 Status of Local Bodies Report

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 authorised by him shall be laid before both the houses of the State Legislature. The Annual Audit

<sup>5</sup> Headed by the District Magistrate/Deputy Development Commissioner

<sup>6</sup> Headed by the Principal Secretary/Secretary of the Panchayati Raj Department, GoB

<sup>7</sup> Headed by the Principal Secretary to the Finance Department, GoB and the Pr. A.G. (Audit), Bihar as a member

Reports of ELA's on LBs for the year ended March 2013 and March 2014 were placed before State Legislature on 11 March 2016. But, arrangement for discussion of the ELA's report had not been made till January 2017.

The first CAG's report on LBs, Government of Bihar for the year ended March 2016 was laid before both the houses of State Legislature on 4 April 2016 and GoB decided to discuss the report in Public Accounts Committee (PAC) which discussed four paragraphs (December 2016) of the report but no observations were settled for want of proper reply from the department concerned.

## Accountability Mechanism and Financial Reporting Issue

### 1.8 Accountability Mechanism

#### 1.8.1 Lok Prahari (Ombudsman)

As per Section 152(5) of BPRA 2006, *Lok Prahari* (Ombudsman) is to be appointed by the State Government for Panchayats and *Gram Kutchahary*. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) guidelines also provide appointment of a *Lok Prahari* (Ombudsman) for the period of two years extendable by one year on satisfactory performance or up to age of 65 years whichever is earlier and establishment of its office for redressal of complaints under MGNREGS to ensure transparency and responsibility.

However, Draft Bihar Local Government Ombudsman Rules 2011 for appointment of *Lok Prahari* (Ombudsman) for Panchayats and *Gram Kutchahary* was not finalized. Therefore, *Lok Prahari* (Ombudsman) for PRIs was not appointed by PRD as of January 2017.

Regarding *Lok Prahari* (Ombudsman) for MGNREGS, Rural Development Department (RDD) informed (November 2016) that Ombudsman was working in 23 districts and in remaining 15 districts, appointment was in process.

Thus, the complaints regarding Schemes (other than MGNREGS) were not addressed by *Lok Prahari* (Ombudsman) as envisaged in the BPRA, 2006.

#### 1.8.2 Social Audit

The basic objective of Social Audit is to ensure public accountability in the implementation of projects, laws and policies.

GoB had sanctioned constitution of an independent Social Audit Committee with 69 different posts (July 2015) to conduct Social Audit of works under MGNREGS. As per information furnished by the RDD, GoB during the year 2015-16, 3544 Social Audits were conducted in 2,100 GPs by respective *Gram Sabhas*. These Social Audits were mainly facilitated by the functionaries of MGNREGS and the *Gram Sabhas* were conducted in presence of an observer assigned by the District Administration.

The Secretary RDD replied (June 2016) that Social Audit reports were lying with the GPs and districts and the State had not received any Social Audit report as there was no such arrangement in the State as of now.

Commissioner, MGNREGS instructed (July 2013) all the DM *cum* District Program Coordinators of the State to adopt the Standard Operating Procedure formulated by the Ministry of Rural Development (MoRD), GoI for preparation of Social Audit reports of GPs from 2013-14.

Accordingly, Social Audit reports for the period 2013-16 were prepared by the GPs in the prescribed format and uploaded in the website of the MoRD.

### 1.8.3 Submission of Utilisation Certificates

As per instruction of GoB read with provisions contained in Section 342 of Bihar Financial Rules (BFR), time limit for submission of Utilisation Certificates (UCs) for the grants sanctioned for specific purposes was 18 months from the date of allotment of the grants. It was noticed that the PRD had released grants of ₹ 14,025.96 crore to PRIs during 2007-08 to 2015-16 under Th FC, *Mukhya Mantri Gramodaya Yojana* (MMGY), Fourth SFC, Furniture and Equipment head etc. But, the UCs for only ₹ 7,101.25 crore (50.62 per cent) were submitted by the PRIs as of July 2016. Details are given in the **Table 1.7** below:

**Table – 1.7: Submission of Utilisation certificates by PRIs for funds allotted during 2007-16**

(₹ in crore)						
Sl. No.	Head	Total Allotment	period	UCs submitted	UCs not submitted	Percentage of UCs submitted
1.	Th FC	4810.74	2010-11 to 2014-15	2676.41	2134.33	56
2.	MMGY	267.70	2012-13 to 2014-15	43	224.70	16
3.	Fourth SFC	2118.61	2011-12 to 2014-15	1016.95	1101.66	48
4.	Allowance to PRIs member	492.46	2008-09 to 2015-16	10.30	482.16	2
5.	Furniture & equipment for Gram <i>Kutchahary</i>	14.00	2008-09 to 2015-16	Nil	14.00	Nil
6.	RGPSA	83.71	2013-14 to 2014-15	4.71	79.00	6
7.	IT cell under BRGF	9.26	2013-14 to 2014-15	5.48	3.78	59
8.	BRGF Basic Grant	3960.30	2007-08 to 2014-15	3140.46	819.84	79
9.	Fourteenth FC	2269.18	2015-16	203.94	2065.24	8.99
<b>Total</b>		<b>14025.96</b>		<b>7101.25</b>	<b>6924.71</b>	<b>50.62</b>

(Source: Information provided by the PRD, GoB)

UCs of ₹ 6,924.71 crore were not submitted for periods ranging from one years to eight years and utilisation percentage ranged between two to seventy nine per cent except for grants under Furniture and Equipment head for which no utilisation was submitted. This indicated weak internal control and possible misutilisation of funds.

### 1.8.4 Utilisation of grants under major Centrally Sponsored Schemes

Details of utilisation of grants under major Centrally Sponsored Schemes (CSSs) are given in **Table 1.8** below:

**Table - 1.8: Utilisation of grants under major CSSs**

(₹ in crore)

Sl. No.	Grant / Scheme	Year	Fund Available	Utilisation	Percentage of Utilisation
1.	MGNREGS	2011-12	2566.45	1668.69	65
		2012-13	2377.68	1971.13	83
		2013-14	2344.22	2038.48	87
		2014-15	1374.24	1090.88	79
		2015-16	1897.31	1606.16	85
2.	BRGF	2011-12	1172.08	457.88	39
		2012-13	1179.82	546.34	46
		2013-14	1162.36	786.80	68
		2014-15	740.00	280.23	38
3	RGPSY	2013-14	8.61	2.30	27
		2014-15	81.43 <sup>#</sup>	2.41	3
		2015-16	79.00	Nil	Nil

(Source: Annual Reports of RDD, GoB; data provided by the PRD and RDD, GoB)

Note: BRGF was delinked from the support of the Central Government w.e.f. 2015-16.

<sup>#</sup> includes State share of ₹20.58 crore.

The utilisation under BRGF decreased from 68 per cent (2013-14) to 38 per cent (2014-15). The Monitoring Officer, PRD replied (October 2016) that the percentage of utilisation had improved to 81 per cent as of August 2016. The status of utilisation of RGPSA ranged between three to twenty seven per cent during 2013-15 while no utilisation was submitted for the grant received during 2015-16.

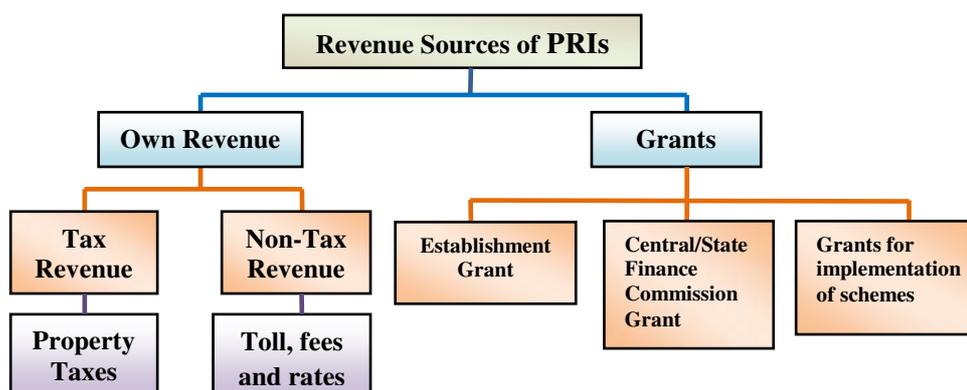
## 1.9 Financial Reporting Issues

### 1.9.1 Source of Funds

#### 1.9.1.1 Sources of Finances

The resource base of PRIs consists of own revenue generated by collection of tax and non-tax revenues, devolution of funds as per recommendations of State and Central Finance Commission, Central and State Government grants for maintenance and development purposes and other receipts. As per Sections 27, 55 and 82 of BPR, 2006, the PRIs may impose taxes on holdings, professions and levy tolls, fees and rates subject to a maximum rates notified by the State Government. A flow chart of sources of finances of PRIs is depicted in the **Chart 1.4** below:

**Chart – 1.4: Source of Finances**



(Source: Section 27, 55 and 82 of BPR, 2006)

But, the PRIs did not have any own tax revenue as the State Government had not yet notified the maximum rates of taxes, tolls and fees etc., as of January 2017. Of the three level of PRIs only the ZPs had some own non-tax revenue from rent of shops/Inspection Bungalow, leasing of ponds/bus-stand etc., whereas PSs and GPs did not have any revenue from own sources. However, framing of Regulations for collection of taxes by PRIs was under process at the State level.

#### 1.9.1.2 Fund Flow arrangement of Centrally/State Sponsored Schemes

Fund Flow arrangement for major Centrally/State Sponsored Schemes is given in **Table 1.9** below:

**Table-1.9: Fund Flow arrangement of Centrally/State sponsored schemes**

Sl. No.	Name of Scheme	Fund flow arrangement
1.	MGNREGS	An electronic Fund Management System (e-FMS), has been introduced in MGNREGS. Under this system, funds are held at one account at the State level (e-FMS Debit account) which is electronically linked to all implementing levels. The implementing agency after due verification of the work and the muster rolls, generates an electronic Fund Transfer Order (FTO) to transfer the wages direct into the beneficiary accounts duly debiting the State level account.
2.	Fourteenth FC	Grants shall be released in two instalments in June and October every year which must be transferred to the GPs within 15 days of receipt from the Central Government. The amount of grant was to be transferred directly into account of GPs.
3.	Fifth SFC	The Fifth SFC grants will be released directly into the bank account of PRIs concerned through electronic fund transfer and core banking system. For the year 2015-16, grant is to be released in one instalment based on Revised/Actuals of 2014-15. In the subsequent year, first allocation of 50 per cent of the devolved funds would be released in April and second instalment by October of the year based upon RE/Actuals of previous year subject to the submission of account of the previous year.
4	RGPSY	This is a Centrally Sponsored Scheme and fund sharing between Central and State government was in the ratio of 75:25. At the State level, Officer on Special Duty (OSD) of the PRD is the Drawing and Disbursing Officer (DDO) for drawing the funds and make available to training providers agencies. At the district level, DDC cum CEO of the ZP is the DDO for utilising the funds for providing human resources to PRIs, capacity building, institutional infrastructure etc.

(Source: Scheme Guidelines and allotment letters of GoB)

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

The budget provisions of State Government to PRIs including State share towards GoI schemes and grants received under recommendations by Central Finance Commissions (CFCs) for the year 2011-16 is given in **Table 1.10** below:

**Table-1.10: Budget allocation vis-à-vis expenditure**

(₹ in crore)

Particulars	Head	2011-12	2012-13	2013-14	2014-15	2015-16	Total
1	2	3	4	5	6	7	8 (3 to 7)
<b>1. Budgetary Allocation</b>	Revenue	3299.79	3276.75	4074.14	4709.01	5465.11	20824.80
	Capital	250.00	250.00	0.00	100.50	2.00	602.50
	<b>Total</b>	<b>3549.79</b>	<b>3526.75</b>	<b>4074.14</b>	<b>4809.51</b>	<b>5467.11</b>	<b>21427.30</b>
<b>2. Expenditure</b>	Revenue	2179.80	2591.06	3003.35	2374.78	2893.01	13041.42
	Capital	210.31	0.00	0.00	0.00	0.00	210.31
	<b>Total</b>	<b>2389.53</b>	<b>2591.06</b>	<b>3003.35</b>	<b>2374.78</b>	<b>2893.01</b>	<b>13251.73</b>
<b>3. Savings (1-2)</b>		1160.26	935.69	1070.79	2434.73	2574.10	8175.57
<b>4. Percentage of savings</b>		<b>33</b>	<b>27</b>	<b>26</b>	<b>51</b>	<b>47</b>	<b>38</b>

(Source: Appropriation Accounts of Government of Bihar)

It is evident from **Table 1.10** above that the PRD could not utilise budgetary allocation fully and percentage of savings ranged between 26 per cent and 51 per cent during 2011-16. Total allocation under Capital head was less than three per cent of the total allocation during 2011-16 while capital expenditure during 2012-16 was nil.

### 1.9.2 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>8</sup> to assess the financial status and to determine the principles on the basis of which adequate financial resources would be ensured to the LBs.

Of the total 17 recommendations of the Fourth SFC whose tenure ended in 2014-15, implementation of three recommendations<sup>9</sup> were pending till 31 March 2016.

The Fifth SFC was constituted in December 2013 for the period 2015-20 and its report was due on 31 March 2015 that was however submitted (2 February 2016) with a delay of 10 months.

As per recommendations of the Fifth SFC, two types of amount (i) share of net tax revenue of the State (ii) amount in shape of grants are to be released to the PRIs to be spent on water supply, sanitation, smart panchayat, e-governance, Panchayat Sarkar Bhawan etc. The amount was to be distributed among GPs, PSs and ZPs in the ratio of 70:10:20 respectively. GoB had made provision of

<sup>8</sup> First SFC - April 1994, Second SFC - June 1999, Third SFC - July 2004, Fourth SFC - June 2007 and Fifth SFC - December 2013

<sup>9</sup> ZPs to become financially self-reliant by raising own resources; State Government to notify maximum limit of taxes to enable the PRIs to raise resources and Accounting format and accounting manual prescribed by the CAG to be used.

₹ 1,822.88 crore to be released to PRIs during 2015-16 but grants were not released till January 2017.

### **1.9.3 Recommendations of the Central 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 Consolidate Fund of a State to supplement the resource of Panchayats and Municipalities.

#### ***Thirteenth Finance Commission***

The Th FC recommended grants-in-aid to the LBs as a percentage of the previous years' pool of taxes over and above the share of the States. GoB received allotment of ₹ 4,810.74 crore for the period 2010-15 and out of this, the PRIs could utilised only ₹ 2,676.41 crore (56 per cent) leaving unspent balance of ₹ 2,134.33 crore as of July 2016. As per recommendation of the Th FC, grants were to be released to PRIs within 15 days from receipt of grants from GoI failing which penal interest for the delays beyond 15 days was to be paid by the State Government from own resources to PRIs. It was observed that Performance Grant amounting to ₹ 167.75 crore was released by the GoI on 31 March 2015 for the period 2014-15 and GoB sanctioned the grants to PRIs on 6 April 2015 but the same was released to the PRIs (2 September 2015) with delays of 133 days. As a result, GoB incurred avoidable liability in shape of penal interest of ₹ 4.43 crore.

#### ***Fourteenth Finance Commission***

The Fourteenth FC recommended grants in two parts- (i) Basic Grant (ii) Performance Grant for duly constituted GPs and Municipalities during award period of 2015-20. Grants to be released every year in two installment (June and October). In the case of GPs, 90 per cent of the grant will be the Basic Grant and 10 per cent will be the Performance Grant. Entitlement of Performance Grant may be from the second year of award period i.e., from 2016-17 onwards.

Entitlement of Basic Grant to GoB for the period 2015-20 was ₹ 18,916.05 crore and Performance Grant for the period 2016-20 was ₹ 2,101.78 crore. Against the entitlement of ₹ 2,269.18 crore of Basic Grant for the period 2015-16, GoB received full amount but second installment received with a delay of five months. Though, the first instalment for the period 2016-17 was due in June 2016, the same was released to PRIs (December 2016) with a delay of six months.

### **1.9.4 Maintenance of Records**

#### ***1.9.4.1 Budget***

As per Rule 14 of the Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964, the annual budget estimates of the ZPs are to be prepared on the basis of the average of its last three years' actuals of income and expenditure. The budget of ZP is to be approved by the Parishad not later

than 20 February. The budget so prepared and approved by the Parishad shall be sent to the State Government before 1 March. Further, Rule 16 prohibits the ZP from incurring expenditure without budget provisions.

Scrutiny of records of 10 test checked ZPs<sup>10</sup> revealed that five ZPs<sup>11</sup> did not prepare budget for the period 2015-16, whereas, in remaining five ZPs, budget for the year 2015-16 was passed by the respective Parishads with a delay of three to eleven months. Of the five ZPs that prepared budget, ZP Banka did not submit the passed budget to the State Government as of July 2016 whereas ZPs Munger, Nalanda and West Champaran submitted their budget to the State Government with a delay of four to nine months.

The ZPs Kishanganj, Muzaffarpur and Purnea replied (June –September 2016) that due to shortage of staff, budget could not be prepared. ZP Gopalganj replied (June 2016) that format of budget and guidelines for preparation of budget were not made available by the Department/Government and ZP Samastipur replied (July 2016) that budget was being prepared for the year 2016-17.

Incurring expenditure without budget is not a healthy financial practice as it undermines the importance of prioritisation of resources, besides diluting the exercise of control over receipt and expenditure. High Level Committee at State level had directed the PRD to prepare the Budget and Accounts Rules for PRIs by September 2013 but the preparation of rules was under process as of January 2017.

#### **1.9.4.2 Maintenance of records**

Rule 40 of Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964 prescribes maintenance of basic records, registers and accounts for transparency and accountability.

Scrutiny of records (2015-16) revealed that out of 38 ZPs in the State, six test checked ZPs did not maintain key records<sup>12</sup> such as Grant Register, Asset Register, Daily Collection Register, and Cashier's Cash Book etc. Further, out of 8931 PSs and GPs in the State, 1064 test checked PSs and GPs did not maintain the key records. Failure to maintain key records could lead to deficient monitoring and actual financial position of the audited entities was not ascertainable in audit. CEO, ZPs replied that due to shortage of manpower, records were not maintained.

#### **1.9.4.3 Annual Accounts**

Rule 94 of Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964 stipulates that as soon as possible after close of the year and not later than the 15 April, the total of the receipts and expenditure of the year shall be posted in the prescribed formats of Annual Accounts.

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<sup>10</sup> Banka, Buxer, Gopalganj, Kishanganj, Munger, Muzaffarpur, Nalanda, Purnea,, Samastipur and West Champaran

<sup>11</sup> Gopalganj, Kishanganj, Muzaffarpur, Purnea and Samastipur

<sup>12</sup> **Asset Register**-Buxer, Patna, Rohtas, West Champaran; **Cashier Cash Book** - West Champaran; **Daily Collection Register** - Munger and Rohtas; **Grant Register** - Buxer, Nalanda, Patna, Rohtas, Samastipur and West Champaran; **Stock register** - Rohtas; **Advance Ledger**-Buxer, Rohtas and West Champaran.

However, Annual Accounts were not prepared by the seven<sup>13</sup> out of 38 test checked ZPs for the year 2015-16. As a result, head-wise receipts as well as expenditure were not ascertainable and its comparing with budget estimate was also not possible.

### **1.9.5 Reconciliation of Balances**

As per Rule 80(a) to (d) of Bihar Panchayat Samitis and Zila Parishads (Budget and Account) Rules, 1964, at the end of each month, a statement indicating the reconciliation of balances should be prepared in the Cash Book.

Scrutiny of records for the period 2015-16 revealed that in three ZPs<sup>14</sup> reconciliation statements were not prepared and there was a total difference of ₹ 87.17 lakh between Cash Books' balance and banks' balance of Th FC, Fourth SFC and BRGF as on 31 March 2016. Failure to reconcile the difference was fraught with risk of misuse of funds.

### **1.9.6 Maintenance of Accounts by PRIs**

#### **1.9.6.1 Maintenance of Accounts by PRIs**

The Panchayats were required to maintain accounts as per Section 30, 58 and 85 of the BPR, 2006. No separate rules were framed under the existing BPR and at the best, the provisions of the BPR 1947 and Panchayat Samiti and Zila Parishads (Budget and Accounts) Rules, 1964 were being followed. The revised Budget and Accounts Rules for PRIs were to be framed by September 2013 but, the Budget and Accounts Rules for PRIs were not framed (January 2017). In six test checked ZPs<sup>15</sup>, accounts were found maintained in single entry system. The PRIs were maintaining accounts on cash basis in single entry system.

#### **1.9.6.2 Model Accounting System and PRIASoft**

Model Accounting System (MAS) was prescribed (2009) by GoI in consultation with the CAG of India for exercising proper control and securing better accountability. Consequently, the PRD, GoB notified (July 2010) that the accounts of PRIs would be maintained in the MAS formats<sup>16</sup> from 1 April 2010. In Bihar, the MAS was implemented through Panchayati Raj Institutions Accounting Software (PRIASoft) developed by the National Informatics Centre (NIC). It aims at computerization of accounts of all the three levels of PRIs through MAS. It was observed that accounting work was done in PRIASoft till 2014-15 and out of total eight MAS formats, only three formats<sup>17</sup> were being

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<sup>13</sup> Aurangabad, Buxar, Munger, Muzaffarpur, Patna, Rohtas and West Champaran

<sup>14</sup> Buxar (₹5.04 lakh), Gopalganj (₹40.67 lakh) and Muzaffarpur (₹41.46 lakh)

<sup>15</sup> Aurangabad, Munger, Muzaffarpur, Patna, Rohtas, and West Champaran

<sup>16</sup> Format-I: Annual Receipt and Payments Accounts; Format-II: Consolidated Abstract Register; Format-III: Monthly Reconciliation Statement; Format-IV: Statement of Receivables and Payables; Format-V: Register of Immovable Property; Format-VI: Register of movable property; Format-VII: Inventory Register; and Format - VIII: Register of Demand and Collection

<sup>17</sup> Format-I, II and III

generated. However, accounting work in PRIASoft was discontinued since 17 April 2015 and e-Panchayat module was introduced thereafter.

Thus, after a lapse of six years from adoption of MAS formats, maintenance of accounts in MAS formats remained unimplemented.

### **1.9.7 Impact of Audit**

Recoveries amounting to ₹ 8.12 lakh were made from the person(s) concerned in four PRIs<sup>18</sup> at the instance of audit conducted during 2015-16.

### **1.9.8 Good Practices**

JEEVIKA is an initiative of the State Government for poverty alleviation. The Bihar Rural Livelihoods Promotion Society (BRLPS) is functioning under the overall framework of National Rural Livelihoods Mission (NRLM) and implementing the JEEVIKA scheme. By the end of September 2015, 47 lakh poor households were mobilised into 4.40 lakh Self-Help Groups (SHGs). Out of these SHGs, 60 *per cent* were federated into 21,529 Village Organisations.

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<sup>18</sup> GP-Kachiana ₹4.14 lakh, PS- Khijarsarai - ₹1.57 lakh, Kumarkhand- ₹0.50 lakh and ZP West Champaran- ₹1.91 lakh

