

# **OVERVIEW**



## OVERVIEW

This Report contains five chapters. The first and third chapters contain an overview of the functioning, accountability mechanism and financial reporting issues of the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. The second and fifth chapters contain compliance audit paragraphs relating to PRIs and ULBs respectively. Fourth chapter contains a Performance Audit report on ‘Utilisation of Grant under Civic Amenities Head (State Plan) By Nagar Nigams’ pertaining to ULBs. A summary of main audit findings is presented in this overview.

### 1. An overview of the functioning of PRIs in Bihar

#### *Audit arrangements*

Thirteenth Finance Commission recommended that the CAG must be entrusted with Technical Guidance and Support over the audit of all the Local Bodies at every tier. Government of Bihar accepted (December 2015) the standard Terms and Conditions for audit of Local Bodies under Technical Guidance and Support arrangement.

*(Paragraph 1.6.2)*

The audit of accounts of PRIs conducted by the Examiner of Local Accounts under the supervision of the Accountant General (Audit), Bihar as per Bihar & Orissa Local Fund Audit Act, 1925 was discontinued and the audit under Technical Guidance and Support arrangement commenced from December 2016. During the year 2015-16, Examiner of Local Accounts conducted audit of 1102 PRIs and Director of Local Fund conducted audit of 127 PRIs.

*(Paragraph 1.6.1 & 1.6.2)*

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

Government of Bihar devolved 29 functions as listed in Eleventh Schedule of the Seventy-Third Constitutional Amendment Act to the PRIs, as of January 2017.

As per Fifth State Finance Commission report, funds available to the PRIs from various sources were grossly inadequate for their assigned functions.

Zila Parishads in the State did not have adequate staff to discharge the devolved functions and 79 *per cent* of sanctioned posts were vacant as of January 2017. In Zila Parishads such as Buxar and Supaul, men-in-position was less than 10 *per cent* of sanctioned strength. At Gram Panchayat level, 3,160 posts of the Panchayat Secretaries (38 *per cent* of the total 8,397 posts) were vacant as of 31 March 2016.

*(Paragraph 1.4.3)*

#### *Utilisation of funds*

As of January 2017, Utilisation Certificates of ₹ 6,924.71 crore for the period 2007-16 were not submitted by the PRIs and utilisation percentage ranged between two to seventy nine *per cent*.

*(Paragraph 1.8.3)*

***Maintenance of Accounts by PRIs***

In PRIASoft, out of total eight Model Accounting System formats, only three formats were being generated. However, accounting work in PRIASoft was discontinued since 17 April 2015 and e-Panchayat Module was introduced thereafter.

(Paragraph 1.9.6.2)

**2. Compliance Audits**

***Implementation of recommendations of Fourth State Finance Commission in PRIs***

The State Government accepted all the 17 recommendations made by Fourth State Finance Commission in respect of the PRIs. However, four recommendations were implemented *in toto*, ten recommendations were implemented with modifications and no action was taken on three recommendations.

(Paragraph 2.1.1)

***Recommendations implemented in toto***

The Fourth State Finance Commission made four recommendations with regard to allocation of funds to the PRIs and the ULBs and its subsequent release to the three tier PRIs. Audit observed that the above recommendations were accepted by the State Government and implemented *in toto*.

***Recommendations implemented with modifications***

The State Government implemented ten recommendations with modifications as detailed below:

***Basis for release of grants***

The Fourth State Finance Commission recommended that 7.5 per cent of the State's tax revenue net of collection costs should be devolved to the local bodies on the basis of the audited figures of that financial year. However, the State Government released funds on the basis of two year old figures. As a result, against recommendations of ₹ 4026.55 crore grants, ₹ 1580.49 crore was only released during 2010-15.

(Paragraph 2.1.3.1)

***Release of grants half yearly in two instalments***

Audit observed that, in two years (2011-13) out of the three years of Fourth State Finance Commission period (2010-15), grants were released in one instalment at the fag end of the year.

(Paragraph 2.1.3.2)

***Release of funds to Panchayat Samitis***

Audit observed that in Nalanda and Saran districts, funds were not transferred to the PSs as per the criteria of 80 per cent weight to population and 20 per cent weight to number of BPL families. Instead, the funds were transferred as per the population of the PSs.

(Paragraph 2.1.3.3)

***Release of grants under high priority sectors***

There was short release of funds of ₹ 635.98 crore to PRIs under the high priority sectors in 2010-11 and 2014-15. Further, funds amounting to ₹ 282.37

crore meant for the exclusive use of the Gram Panchayats were allocated to the Zila Parishads and the Panchayat Samitis during 2011-14.

*(Paragraph 2.1.3.4)*

#### ***Grants for Capacity Building***

The Fourth State Finance Commission recommended that grants of ₹ 15 lakhs, ₹ one lakh and ₹ two lakh per annum were to be given to each Zila Parishad, Panchayat Samiti and Gram Panchayat respectively for capacity building (₹ 901.35 crore over the five year period of 2010-15 at ₹ 180.27 crore per annum). Audit observed that the State Government released ₹ 538.11 crore only to the PRIs for three years (2011-14) for Account maintenance and Capacity Building to fulfil the basic responsibility of planning, budgeting, spending, accounting and reporting.

*(Paragraph 2.1.3.5)*

#### ***Untied grants***

The Fourth State Finance Commission recommended that the amount of untied grants remaining after fulfilment of the requirement of priority sectors were to be spent on purposes consistent with the duties and functions stated in the Act and were not to be utilised for payment of salary or purchase of vehicles without previous sanction of the State Government.

Audit scrutiny revealed that for Panchayat Samitis and Gram Panchayats, the State Government released grants of ₹ 518.27 crore during 2011-14 in the ratio of 20:70. However, the Zila Parishads share of ₹ 108.25 crore was released for payment of salaries and retirement benefits during 2011-15 as per the population of the district instead of on other development heads. As a result, the Zila Parishads failed to receive additional funds to be spent on purposes consistent with the duties and functions stated in the Act.

*(Paragraph 2.1.3.6)*

#### ***Devolution of Functions, Functionaries and Fund***

The Fourth State Finance Commission recommended that transfer of Functions, Functionaries and Fund (3Fs) should be expedited.

Audit observed that the Departments of GoB had transferred (July to September 2001) 79 functions to Gram Panchayats, 60 functions to Panchayat Samitis and 61 functions to Zila Parishads and prepared tier wise activity mapping of devolved functions by PRIs. But the process so far on department-wise and subject-wise activity mapping was unsatisfactory. Staff was answerable to their respective departments and the PRIs did not have adequate staff to discharge the devolved functions. Though funds available to the PRIs from various sources were grossly inadequate for their assigned functions, they were not able to utilise even that due to capacity constraints.

*(Paragraph 2.1.3.7)*

#### ***Release of grants for salary of employees***

The Fourth State Finance Commission recommended for release of grants by the State Government for salary to Zila Parishad employees without any tapering for the period 2010-15. However, only 39 to 70 per cent of grants were made available to the Zila Parishads during 2011-15 as the State Government released funds on the basis of population instead of actual men-in-position.

*(Paragraph 2.1.3.8)*

***Payment of Retirement Benefits***

The Fourth State Finance Commission recommended that the arrears of retirement benefit to employees of local bodies should be cleared by giving one-time lump sum grants-in-aid. Audit observed that no such grant was released to the PRIs by the State Government during 2010-15.

***(Paragraph 2.1.3.9)***

***Adoption of accounting formats for PRIs***

The Fourth State Finance Commission recommended that the accounting formats prescribed by C&AG should be adopted and accounting manuals be finalised in consultation with Accountant General. It was also recommended that the possibility of simplifying the formats may also be explored.

However, Audit observed that out of eight data formats, only three were generated upto March 2015 and five formats were not maintained as accrual basis of accounting required was not adopted by PRIs. As a result, financial statements of the accounts of PRIs were not prepared and therefore, actual status of assets of PRIs was not ascertainable.

***(Paragraph 2.1.3.10)***

***Recommendations not implemented by the Government***

The State Government did not implement three of the accepted recommendations as detailed below:

***Grant-in-aid to Zila Parishads and Panchayat Samitis***

The share in State taxes followed by the grants-in-aid to Zila Parishads and Panchayat Samitis shall be firstly put to use in filling the gaps in the actual cost of execution of schemes identified as priority activities. The Fourth State Finance Commission recommendations and State Government directives specified the purposes for which funds were to be utilised.

Audit observed, that grants were not released to Zila Parishads and Panchayat Samitis for the purposes specified in the recommendations of Fourth State Finance Commission/directives of the Government.

***(Paragraph 2.1.4.1)***

***Financial self-reliance of PRIs and enhancement of revenue***

The Fourth State Finance Commission recommended that the PRIs, especially the Zila Parishads, should strive to become financially self-reliant by raising their own resources by approaching financial institutions for investment in projects to ensure that the prime lands available to them are put to profitable use and may also try to explore the possibility of creating assets by adopting the Public Private Partnership mode. Audit Scrutiny revealed that the four test checked Zila Parishads failed to approach the financial institutions or adopt Public Private Partnership mode for profitable use of their prime lands. Further, the test checked ZPs also failed to initiate action to enhance the revenue.

***(Paragraph 2.1.4.2)***

***Imposition of Taxes***

As per Fourth State Finance Commission recommendation, the State Government should notify the maximum rate of taxes to be levied by the PRIs to enable them to raise resources or amend the law so that there would be no need to have government approval.

The State Government failed to notify any rate of taxes as of May 2016. As a result, the PRIs were unable to generate revenue by way of taxation.

***(Paragraph 2.1.4.3)***

***Audit Paragraphs***

Inaction by the Chief Executive Officer, Zila Parishad Patna to follow the orders of the Zila Parishad Board to lease out an eight storied Annexe Building in existing condition resulted in loss of rental income of ₹ 3.78 crore during September 2011 to August 2016.

(Paragraph 2.2)

Delay in release of Fourteenth Finance Commission grants to Gram Panchayats by Government of Bihar resulted in avoidable payment of penal interest of ₹ 8.12 crore.

(Paragraph 2.3)

### 3. An overview of the functioning of ULBs in Bihar

***Audit arrangements***

The audit of accounts of ULBs conducted by the Examiner of Local Accounts under the supervision of the Accountant General (Audit) Bihar as per Bihar & Orissa Local Fund Audit Act, 1925 was discontinued and the audit under Technical Guidance and Support arrangement commenced from December 2016. During the year 2015-16, Examiner of Local Accounts conducted audit of 59 ULBs. During the year 2015-16, Director of Local Fund conducted audit of seven ULBs.

(Paragraph 3.6.1)

***Devolution of functions, funds and functionaries***

Of the total 18 subjects listed in the Twelfth Schedule of Seventy-Fourth Constitutional Amendment Act, ULBs carried out functions related to 12 subjects and functions of six subjects were carried out by the functional department of the Government of Bihar.

As per Fifth State Finance Commission report, funds available to the ULBs from various sources were grossly inadequate for their assigned functions. Against entitled amount of grants of ₹ 781.32 crore for the year 2015-16 under Fifth State Finance Commission, only ₹ 434.64 crore was released to ULBs.

Of the total 12,453 sanctioned posts in ULBs, 7,145 posts (57 per cent) were vacant. As of March 2007, 40 per cent posts were vacant which increased to 57 per cent as of September 2016 whereas 96 to 99 per cent posts of technical staff were vacant.

(Paragraph 3.4.2, 3.9.3 & 3.4.3)

***Release of funds***

The first instalment of Fifth State Finance Commission for the year 2016-17 amounting to ₹ 462.93 crore was released in October 2016 though it was due in May 2016 while second instalment was not released (February 2017) to ULBs in want of Utilisation certificates of grants released as first instalment.

(Paragraph 3.9.3)

***Utilisation of funds***

The Urban Development and Housing Department released grants of ₹ 10,261.62 crore to ULBs during 2003-15 (up to July 2015) under various assistance grant heads. But, the Utilisation Certificates of ₹ 4223.56 crore (41 per cent) were pending as on 2 February 2017.

(Paragraph 3.8.6)

#### 4. Performance Audit

##### Utilisation of Grants under Civic Amenities Head (State Plan) By Nagar Nigams

The Urban Development and Housing Department, Government of Bihar released grants to the Nagar Nigams under State Plan head during the period 2011-16 for providing civic amenities such as construction of parks, Bus stand/Bus stop, construction of ghat, infrastructure development in slums, construction of community hall, construction of guest house/town hall, traffic lights/public conveniences and special sanitation.

During Performance Audit it was noticed that:

##### *Utilisation of funds*

Audit observed that 55 per cent of the total grants received by Nagar Nigams were transferred to Parallel/Parastatal Bodies such as Bihar Urban Infrastructure Development Corporation Ltd., Bihar Urban Development Agency etc. which are formed due to poor staffing and technical incapability of the Urban Local Bodies for performing various functions of Municipality. Thus, more than 50 per cent of works for civic amenities were executed without involving the ULBs.

(Paragraph 4.1.7.1)

In four test checked Nagar Nigams, grants amounting to ₹ 48.19 crore were not utilised for a period ranging from one to seven years as required land was not made available.

(Paragraph 4.1.7.2)

##### *Construction of Parks*

GoB released grants of ₹ 11.56 crore for construction of 17 parks under Nagar Nigam Patna during 2009-16. Of this, 10 parks were completed with an expenditure of ₹ 10.08 crore whereas seven parks remained incomplete as of August 2016.

Audit physically verified six parks and found that two parks constructed at a cost of ₹ 51.25 lakh were locked, filthy and not put to use.

(Paragraph 4.1.8.1)

##### *Construction of bus stands and bus queue shelters*

With a view to provide better infrastructure to urban population, GoB mandated Bihar Urban Infrastructure Development Corporation Ltd. for development of bus stands/bus queue shelters throughout the State. During 2011-16, GoB released ₹ 26.24 crore to BUIDCO through four test checked Nagar Nigams for construction of bus stand/bus queue shelters. Out of this, ₹ 18.74 crore was released for construction of five bus stands in the test checked Nagar Nigams.

However, two works were in progress whereas three works were not started as of August 2016. Bihar Urban Infrastructure Development Corporation Ltd failed to start the construction of three bus stands despite availability of ₹ 12.73 crore since March 2013 to November 2014 as land was not made available by two Nagar Nigams and administrative approvals for Inter State Bus Terminal, Patna were not received from GoB.

(Paragraph 4.1.8.2)

***Construction/renovation/beautification of Pond/Ghat***

GoB released (October 2010) ₹ 80 lakh for beautification/renovation of *Kagwali* Pond under Nagar Nigam, Gaya. The work to be completed by February 2012, could not be started in time due to dispute at the work site and was started in June 2012 only. The work was neither completed by the contractor nor any action was initiated against him by Nagar Nigam, Gaya (August 2016).

(*Paragraph 4.1.8.3*)

***Infrastructure Development in Slums***

GoB sanctioned (December 2013 and July 2014) ₹ 45.25 crore to Bihar Urban Development Agency for infrastructure development in slums under four sampled Nagar Nigams.

Audit observed that out of 4,488 individual toilets planned (2014), only 1,548 toilets were completed in the first phase and despite availability of ₹ 1.87 crore, 2,940 toilets were not constructed by the Nagar Nigams and people of the selected households were compelled to continue with the open defecation.

(*Paragraph 4.1.8.4*)

***Construction of Community Halls***

An amount of ₹ three crore was released (December 2011) to District Urban Development Agency, Gaya for Construction/Extension/Renovation of four Community Halls in test checked Nagar Nigams. However, construction of two Community Halls remained incomplete/not commenced as of August 2016 due to dispute at worksite of Azad Park Community Hall and the tender for the Hall at *Maa Bageshwari* Temple Gaya was not invited (August 2016).

(*Paragraph 4.1.8.5*)

***Construction of Town Halls***

Grants released under construction of *Samrat Ashok Bhawan* (Town Hall) were lapsed as the moneys were not drawn from the treasury. Though, the Municipal Commissioner was responsible for drawl of grants from the treasury, no records were available to indicate that such a monitoring was done by the Municipal Commissioner.

(*Paragraph 4.1.8.6*)

***Construction of public conveniences***

GoB allotted (January 2010) ₹ 5.94 crore to Bihar Rajya Pul Nirman Nigam Ltd (BRPNNL) for construction of 32 numbers of public conveniences at different locations in Patna at ₹ 18.54 lakh each. Subsequently, these conveniences were to be handed over to Nagar Nigam Patna to enhance its source of income. All the 32 public conveniences were constructed during the period November to December 2009. However, 10 were not handed over to Nagar Nigam Patna even after a lapse of more than six years of its construction.

These 10 public conveniences were physically verified by Audit and it was found that nine were not in use since construction and the one at Indira Gandhi Institute of Medical Sciences campus was being used and maintained by the hospital which was also confirmed during beneficiary survey of 177 beneficiaries.

(*Paragraph 4.1.8.7*)

### ***Special Sanitation***

The grants for comprehensive improvement in sanitation across the municipal area were to be utilised on six components viz., door-to-door waste collection, purchase of equipment for collection of waste, purchase/development of landfill sites for waste management, assistance in generation of compost/electricity from the waste, de-silting, cleaning and consolidation of drains and providing manpower for special sanitation drive of public places. Audit observed that two test checked Nagar Nigams incurred an expenditure of ₹ 10.56 crore out of total grants of ₹ 20.60 crore during 2015-16 on components other than the prescribed ones such as salary of regular sanitation staff, daily wages of sanitation staff, night sanitation, purchase of aprons etc.

(Paragraph 4.1.8.8)

### ***Planning***

The Development Plan for providing Civic Amenities was not prepared by the test checked Nagar Nigams and development works executed by them were not the part of district plan prepared by District Planning Committees.

(Paragraph 4.1.6.1)

## **5. Compliance Audits**

Nagar Parishad Sultanganj made irregular payment of ₹ 50 lakh on training component of *Swarna Jayanti Shahari Rozgar Yojana*, due to lack of observance of Scheme guidelines. In eight ULBs, NGOs failed to provide employment to trained beneficiaries despite an expenditure of ₹ 3.91 crore over their training.

(Paragraph 5.1)

Annual Rental Value of holdings was not revised by minimum 15 *per cent* every five years and Property Tax was levied at a rate below the prescribed minimum rate which led to a loss of tax revenue of ₹ 36.56 lakh.

(Paragraph 5.2)

Relevant financial rules were not observed by Nagar Parishad, Siwan in payment of advance for maintenance of solar lights which led to irregular payment of ₹ 80.87 lakh to the agency.

(Paragraph 5.3)