



# **OVERVIEW**



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This Report contains four chapters. The first and the third chapters contain an overview of the functioning, accountability mechanism and financial reporting issues of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs), respectively. The second and the fourth chapters contain observations arising out of compliance audits of PRIs and ULBs, respectively. A summary of the significant audit findings is presented in this overview.

### **1. An overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions**

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

Twenty Departments of the Government of Bihar (GoB) transferred their respective functions (September 2001) to PRIs, in the light of subjects/ functions enlisted in the Eleventh Schedule of the Constitution and prepared tier-wise activity mapping of functions/ sub-functions. In this regard, Chief Secretary, Bihar, observed that the notifications issued by the Departments, regarding the devolution of functions and responsibilities to be performed by the three tiers of PRIs, were not clear and practical for adoption by PRIs and directed (July 2014 and April 2019) the Departments to frame clear operational guidelines for effective devolution of powers to PRIs. No progress was, however, observed in this regard.

PRIs were not able to levy and collect revenues from their own resources till August 2021, as GoB did not specify the rates at which the tax/non-tax revenues were to be collected, despite recommendation of the State Finance Commissions and relevant provisions in the BPR, 2006.

PRIs in the State did not have adequate staff to discharge the devolved functions. At the GP level, 6,055 posts (71.92 per cent of the sanctioned strength 8,419) of Panchayat Secretary were vacant, whereas, as of June 2022, 308 BPROs were working in 534 Blocks of the State.

*(Paragraph 1.3.3)*

#### *Audit arrangements*

The 13<sup>th</sup> Finance Commission had recommended that the Comptroller and Auditor General (CAG) of India be entrusted with the Technical Guidance and Support (TGS) over the audit of all the Local Bodies (LBs), at every tier/ category and his Annual Technical Inspection Report (ATIR), as well as the Annual Report of the Director of Local Fund Audit (DLFA), be placed before the State Legislature. GoB accepted the terms and conditions for audit of the accounts of LBs, under the TGS arrangement, in December 2015. Thereafter, audit of LBs, by CAG, under the TGS system, commenced from January 2017. Since then, the DLFA has been functioning as the primary External Auditor for audit of the LBs.

DLFA conducted audit of the accounts of only 3,362 PRIs, out of 8,638 PRIs, during FYs 2016-17 to 2020-21. Against the target of online audit of 2,161

and 8,638 PRIs, for the financial years 2019-20 and 2020-21 respectively, 2,136 units (98.84 per cent) and 2,807 units (32.5 per cent), respectively, had been audited, as of March 2022. As of March 2022, only 69 audit personnel (22 per cent) were working under the DLFA, against the sanctioned strength of 314 posts.

***(Paragraph 1.5)***

### ***Accountability Mechanism and Financial Reporting***

The accountability mechanism and financial reporting were deficient, as the Draft Bihar Local Government Ombudsman Rules, 2011, for the appointment of *Lok Prahari* (Ombudsman) for Panchayats, had not been finalized till February 2022. Social audit of schemes in PRIs, other than the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), had not been conducted till March 2022.

***(Paragraph 1.7.1 & 1.7.2)***

### ***Utilisation of funds***

Audit observed that the Panchayati Raj Department had released grants of ₹42,940.69 crore to PRIs during FYs 2007-08 to 2020-21, under different scheme heads, but PRIs had submitted UCs for only ₹17,917.69 crore (42 per cent), till March 2022.

***(Paragraph 1.7.3)***

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

The Panchayati Raj Department instructed (January 2020) all District Magistrates to complete audit of the accounts of the PRIs and *Gram Kachaharies*, up to the financial year 2018-19, by January 2020. However, audit for the financial years 2017-18 and 2018-19 had not been completed, as of February 2022. Further, the Department had failed (as of February 2022) to appoint a State Level Audit and Financial Management Consultant, for: (i) reviewing the work of the CA firms (ii) supervising and compiling reports received from the districts, at the State level (iii) ensuring compliance of objections and (iv) other audit-related work, at the Department level.

***(Paragraph 1.7.4)***

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

As of February 2022, against the approved target of 5,32,283 units, PRD, Bihar, had imparted training at the State and District levels, to only 30,223 units (5.68 per cent), during the financial year 2019-20.

***(Paragraph 1.8.4.2)***

### ***Issues related to Abstract Contingent (AC)/ Detailed Contingent (DC) Bills***

As of July 2022, DC bills, amounting to ₹97.18 crore, withdrawn through AC bills, during the financial years 2002-2003 to 2021-2022 (up to 30 September 2021), remained pending for adjustment.

***(Paragraph 1.8.5.1)***

## 2. Compliance Audit- Panchayati Raj Institutions

Failure of Zila Parishad, Begusarai, to lease out newly constructed commercial buildings, shops, marriage halls and godowns, to generate income from own sources, led to loss of revenue, to the tune of ₹ 2.40 crore.

*(Paragraph 2.1)*

Non-adherence to codal provisions, regarding grant and adjustment of advances, in regard to construction of a road, by Gram Panchayat, Patna, led to misappropriation of government money, amounting to ₹ 7.33 lakh.

*(Paragraph 2.2)*

Zila Parishad (ZP), Saran, extended undue favour to a bidder, by allotting it shops/halls, constructed on its land, despite the bidder not having followed the terms and conditions of allotment. Further, after allotment, the bidder did not deposit ₹ 96 lakh out of the tendered amount.

*(Paragraph 2.3)*

Two Panchayat Samitis and two Gram Panchayats failed to assess the actual physical status of works executed departmentally, under Finance Commission grants and the Mahatma Gandhi National Rural Employment Guarantee Scheme, before making payment to the executing agents, resulting in irregular payment of ₹ 10.03 lakh.

*(Paragraph 2.4)*

Failure of the Zila Parishads to realise rents of Inspection Bungalows, from officers of the State Government who were occupying the bungalows for residential or official use, resulted in loss of revenue, amounting to ₹ 73.49 lakh.

*(Paragraph 2.5)*

Failure of Zila Parishad, Supaul, to adhere to financial rules regarding payment and adjustment of advances and its lack of monitoring over the execution of development works, resulted in misappropriation of government money, amounting to ₹ 71.95 lakh, in addition to infructuous expenditure of ₹ 82.44 lakh on incomplete works.

*(Paragraph 2.6)*

## 3. An overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

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

Only 13 out of the 18 functions specified in the 12<sup>th</sup> Schedule were being performed by ULBs, while the remaining five functions/activities were still being performed by concerned departments of the GoB. The functions of ULBs overlapped with those of the functional departments of the GoB and, even after a lapse of more than 28 years of the 74<sup>th</sup> CAA having entered into force, ULBs were not able to carry out their entire mandated functions.

The Central/ State Government had provided funds to ULBs under different heads such as Central Finance Commission, State Finance Commission, and State Plan etc., to carry out their mandated functions. The dependence of ULBs on government grants, to meet their establishment expenditure, was increasing.

ULBs in the State did not have adequate staff for discharging the devolved functions. As of April 2022, 2,982 posts had been sanctioned for ULBs, out of which, only 526 posts had been filled up and 2,456 posts (82 *per cent* of the total posts) were vacant.

***(Paragraph 3.3.2)***

#### ***Formation of various Committees***

Municipal Accounts Committees, Subject Committees and Wards Committees, were not constituted in the Municipalities of the State.

***(Paragraph 3.4)***

#### ***Audit arrangements***

In pursuance of the recommendations of the Central Finance Commissions, the State Government had notified (June 2015) the establishment of its Directorate of Local Fund Audit, headed by the Chief Controller of Accounts-cum-Director Local Fund Audit (DLFA), under the Finance Department of GoB, to conduct audit of LBs, which has been functioning since 11 June 2015. GoB had accepted (December 2015) the terms and conditions for audit of the accounts of LBs, under the Technical Guidance and Support (TGS) arrangement, as laid down in the Regulations on Audit and Accounts, 2007. Subsequently, audit of the accounts of LBs, by the CAG of India, under the TGS arrangement, commenced from January 2017. Since then, the DLFA had been functioning as the primary external auditor.

Although there were 142 ULBs in the State, the DLFA had conducted audit of the accounts of only 113 ULBs, during FYs 2016-17 to 2020-21.

***(Paragraph 3.5)***

#### ***Poor response to IRs issued by AG (Audit)***

Out of a total of 4,829 audit paragraphs, contained in 179 IRs, only 935 paragraphs (19 *per cent*) had been settled, while 3,894 paragraphs, involving an amount of ₹ 8,669.35 crore, remained outstanding till March 2022.

***(Paragraph 3.6.1)***

#### ***Accountability mechanism and status of financial reporting***

The Accountability mechanism and status of financial reporting were not adequate, as no *Lok Prahari* (Ombudsman) had been appointed; no Social Audit of the schemes implemented by ULBs had been conducted; and no Property Tax Board, for optimizing the collection of Property Tax, had been constituted.

***(Paragraph 3.7.1, 3.7.2 & 3.7.3)***

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**Utilisation Certificates**

UD&HD had sanctioned grants of ₹ 10,952.92 crore, during FYs 2016-17 to 2020-21, but UCs of ₹ 4,984.78 crore (46 *per cent*) remained pending for adjustment, as of March 2022.

**(Paragraph 3.7.5)**

**4. Compliance Audit- Urban Local Bodies**

Failure of the Patna Municipal Corporation (PMC) to realise fines for non-assessment of holdings, by the owners of the holdings, under self-assessment scheme, resulted in loss of revenue, amounting to ₹ 0.60 crore.

**(Paragraph 4.1)**

Failure of the Patna Municipal Corporation (PMC) to realise user charges for providing door to door services for collection of garbage, resulted in loss of revenue, amounting to at least ₹ 8.92 crore.

**(Paragraph 4.2)**

Patna Municipal Corporation failed to keep watch over the payment of consultancy charges made to the Project Management Unit (PMU), for facilitating the implementation of *Rajiv Awas Yojana*, resulting in: (i) excess payment of ₹ 46.19 lakh and (ii) irregular payment of service tax, amounting to ₹ 12.32 lakh, to the PMU.

**(Paragraph 4.3)**

