



PART – B
URBAN LOCAL BODIES



CHAPTER – III

**An Overview of the Functioning of the
Urban Local Bodies in Bihar**

Chapter – III
**An Overview of the Functioning, Accountability Mechanism and
Financial Reporting issues of Urban Local Bodies**

3.1 Introduction

The Seventy-Fourth Constitutional Amendment Act (CAA), 1992 envisaged creation of local self-government for population of urban areas. Accordingly, Municipalities were provided constitutional status for governance. The States were required to entrust Municipalities with powers, functions and responsibilities, to enable them to function as institutions of local self-government and carry out the responsibilities conferred upon them, including 18 subjects listed in the Twelfth Schedule of the Constitution.

Article 243 W of the Constitution provides that the Legislature of a State may, by law, endow Municipalities with such powers and authority, as may be necessary to enable them to function as institutions of self-government and such law may contain provisions for the devolution of powers and responsibilities upon Municipalities, with respect to preparation of plans for economic development and social justice and performance of functions and implementation of schemes, as may be entrusted to them.

The Government of Bihar (GoB) enacted the Bihar Municipal Act (BM Act), 2007, by repealing the Bihar and Orissa Municipal Act, 1922, wherein Municipalities were devolved functions and responsibilities and powers to carry out these functions. The BM Act, 2007, was enacted to consolidate and amend the laws relating to Municipal Governments in the State, in conformity with the Seventy-Fourth CAA. Further, the GoB framed the Bihar Municipal Accounting Rules (BMAR), 2014, the Bihar Municipal Accounting Manual (BMAM) and the Bihar Municipal Budget Manual, for preparation and maintenance of accounts and budget by the Municipalities of the State, from the Financial year 2014-15.

3.1.1 Urban Local Bodies (ULBs) in Bihar

Sections 7 and 20 of the BM Act, 2007, lay down the criteria for classification of municipal areas. As per the 6th SFC Report (March 2020), there were 142 ULBs in the State. As per Section 3 of the BM Act, 2007, the State Government may specify an area to be a larger, medium or a transitional urban area subject to fulfillment of certain conditions⁴⁶ and non-agricultural population in the areas being seventy five *per cent* or more.

Further, the GoB changed (May 2020) the criteria of percentage of non-agricultural population for classification of an area into an urban area, by enactment of the Bihar Municipal Amendment (Act), 2020. As per amended Act, an area may be classified as an urban area, if the population of long-term and short-term agricultural workers is less than 50 *per cent* of total workers in the area. As a result, the number

⁴⁶ (a) Population in the case of a larger urban area should be two lakh or more; (b) For a medium urban area, population should be forty thousand or more but less than two lakh; and (c) in case of a transitional area, population should be twelve thousand and more but not more than forty thousand.

of ULBs in the State increased from 142 to 258 (with constitution of 116 new Municipalities). Further, the status of 32 Nagar Panchayats and five Municipal Councils was upgraded to Municipal Councils and Municipal Corporations respectively. Due to the classification of rural areas into urban areas, 0.46 crore rural population was added to the existing urban population and this raised the urbanization rate in the State, from 11.3 per cent to 15.75 per cent of the total population of the State. The number and class of ULBs, on the basis of population as per Census 2011 and after constitution of new Municipalities by the GoB, as of March 2021, are given in **Table 3.1** below:

Table 3.1: Classification of ULBs

| Category of ULBs | Grade | Population | No. of ULBs |
|------------------------------|-------------------------|--|-------------|
| Municipal Corporation | Larger urban area | More than two lakh | 18 |
| Municipal Council | Medium urban area | More than 0.40 lakh and less than two lakh | 83 |
| Nagar Panchayat | Transitional urban area | More than 0.12 lakh and up to 0.40 lakh. | 157 |
| Total | | | 258 |

(Source: Information provided by UD&HD)

On the basis of population, the Municipal areas of the State were divided into 3371 Wards that were determined and notified by the State Government. There were a minimum of 10 Wards and maximum of 75 Wards, across different classes of Municipalities in the State.

3.1.2 State Profile

The State of Bihar is among the least urbanized States in the country. As per Census 2011, the urban population of Bihar was 1.64 crore, constituting 15.75 per cent of the total population (10.41 crore) of the State, while the national average for urbanization stood at a much higher level, at 31.2 per cent. Although, Bihar has 8.6 per cent of India's total population, yet only 4.35 per cent of the total urban population of India lived in urban areas of Bihar and only one city (Patna) of the State had a population of more than one million. The comparative demographic and development statistics of the State are given in **Table 3.2** below:

Table 3.2: Important statistics of the State

| Sl. No. | Indicators | Unit | State | All over India |
|---------|----------------------------------|----------------------------|-------|----------------|
| 1 | Urban Population | Million | 16.36 | 377.11 |
| 2 | Urban Population Density | Person per Sq. km | 4,811 | 3,836 |
| 3 | Urban Literacy | Per cent | 76.86 | 84.11 |
| 4 | Urban Sex ratio | females per thousand males | 895 | 900 |
| 5 | Urban poverty level | Per cent | 31.2 | 13.7 |
| 6 | Municipal per capita own revenue | ₹ | 58 | 2,540 |
| 7 | Number of ULBs | Number | 258 | 4,771 |
| 8 | Number of districts | Number | 38 | 737 |

(Source: Sl. no. 1 to 6 from Census 2011 and Sl. Nos. 7 & 8 from Local Government Directory, GoI)

3.2 Organisational Set-up of ULBs

The ULBs were under the administrative control of the Urban Development and Housing Department (UD&HD), GoB, headed by the Principal Secretary/ Secretary. The Municipal Commissioner-cum-Chief Executive Officer was the executive head of the Municipal Corporation while the Municipal Council and Nagar Panchayat were headed by Executive Officers appointed by the State Government. The Chief Municipal Officer was the Principal Executive Officer of the Municipality and all officers and other employees of the Municipality were subordinate to him. Executive functions for carrying out the administration of the Municipality were vested in the Chief Municipal Officer. Joint/ Additional/ Deputy Municipal Commissioners were appointed in Municipal Corporation to assist the Municipal Commissioner. A City Manager was also appointed, on contractual basis, in the Municipal Corporation and Municipal Council/ Nagar Panchayat, to assist the Chief Municipal Officer.

The ULBs had an Empowered Standing Committee (ESC) comprising of Councillors elected by the people and headed by the Mayor (for Municipal Corporations), the Chairperson (for Municipal Councils) and the Municipal President (for Nagar Panchayats), elected among Ward Councillors, to preside over the meetings of the ESC. The Chief Councillor was the head of the ESC and the executive power of a Municipality was exercised by the ESC. The organizational structure of ULBs is presented in **Charts 3.1** and **3.2** below:

Chart 3.1: Elected Body

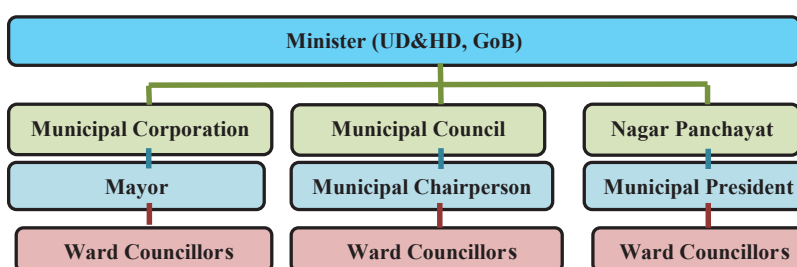
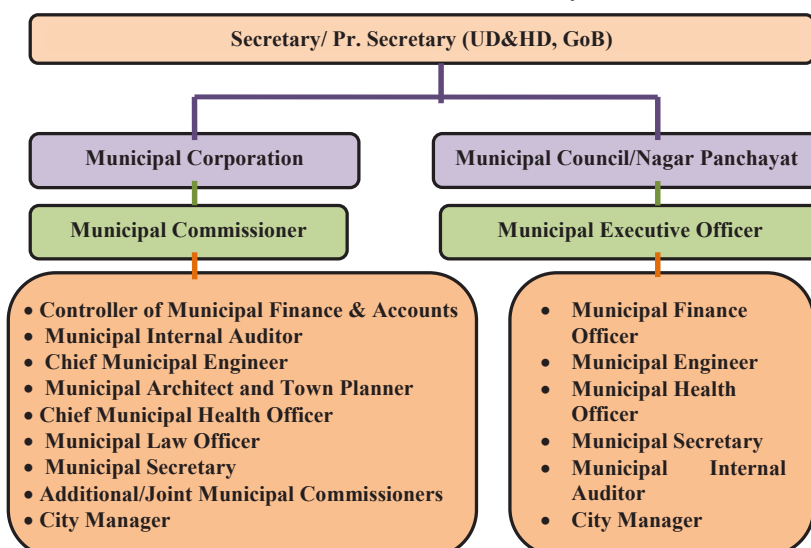


Chart 3.2: Administrative Body



(Source: Section 36 of BMA, 2007, Sankalp (UD&HD)-1435 dated- 5 March 2019 and Website: www.urban.bih.nic.in)

3.3 Functioning of ULBs

3.3.1 Powers of the State Government

The BM Act, 2007 entrusts the State Government with certain powers so as to enable it to monitor proper functioning of the ULBs. The ULBs were devolved some powers for delivery of services as stipulated in the BM Act, 2007, but decisions on all key issues were being taken by the State Government. A brief summary of the powers of the State Government is given in **Table 3.3** below:

Table 3.3: Powers of the State Government

| Authority | Powers of the State Government |
|-----------------------------|--|
| Sections 3 and 6 | Constitution of Municipal Area: The State Government may, after making such enquiry as it may deem fit, and having regard to the population of any urban area, density of population therein, the revenue generated for the local administration of such area, may, by notification constitute such large urban area, city, town or transitional area or any specified part thereof as a municipal area under this Act. |
| Section 44 | State Municipal Vigilance Authority: The State Government shall appoint <i>Lok Prahari</i> to inquire into any allegation of corruption, misconduct, lack of integrity or any kind of malpractice or mal-administration or misdemeanor of Chief/Deputy Chief Councillor/Officers and other employees of the municipality. |
| Sections 65 and 66 | Power to inspect office, call for the records etc.: The State Government may depute officer to inspect any office or call for the records under the control of the ULBs. |
| Section 87 | Preparation of Accounting Manual: The State Government shall prepare, update and maintain a Manual viz., the Bihar Municipal Accounting Manual for implementation of accrual based double entry accounting system containing details of all financial and accounting matters and procedures in Municipalities. |
| Section 419 | Power to make Rules: The State Government may, by notification, make rules to carry out the purpose of BM Act, 2007 subject to approval by the State Legislature. |
| Sections 421 and 423 | Power to make regulations: The Municipality may make regulations for the purpose of giving effect to the provisions of BM Act, 2007 subject to approval of the State Government. |
| Section 487 | Removal of difficulties: If any difficulty arises in giving effect to the provisions of BM Act, 2007, the State Government may do anything necessary to remove such difficulty. |

(Source: BM Act, 2007)

3.3.2 Devolution of functions, funds and functionaries

(i) Devolution of Functions

The Seventy-Fourth CAA, 1992, enables the ULBs to perform functions relating to 18 subjects referred to in the Twelfth Schedule of the Constitution. Accordingly, the GoB made provisions in the BM Act, 2007, for functions relating to 17 out of 18 subjects (except fire services), which were to be carried out by the ULBs (*Appendix 3.1*). However, it was observed that only 13 out of

17 functions were being performed by ULBs, while the remaining four⁴⁷ (and including fire service) functions/activities were still being performed by the concerned Departments of the GoB.

Further, the 13th FC had referred the recommendation made by the 2nd Administrative Reforms Committee, on activity mapping for ULBs, wherein a number of steps were suggested for adherence by the State Governments, which included a clear delineation of functions for each tier, through activity mapping and passing of a framework law to formalize the relations between the State and local governments. However, as per the sixth SFC report, activity mapping for clarification of the roles and responsibilities, which were to be carried out by ULBs, was not done.

In regard to the devolution of functions, the Department stated (August 2021) that the subjects referred to in the Twelfth schedule of the **Constitution of India were provisioned in BM Act, 2007**, and the same were to be performed by ULBs. However, various functions of ULBs, along with fire services, were being performed at the level of concerned Departments of the GoB, due to lack of manpower and shortage of infrastructure at the ULB level.

Thus, 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 74th CAA, ULBs were not able to carry out their entire mandated functions.

(ii) Devolution of Funds

Section 72(3) of the BMA, 2007, provided that the State Government had to provide grants to Municipalities, for implementation, in full or in part of any scheme included in the Annual Development Plan of the Municipalities. The Central/State Government had provided funds under different heads, such as Central Finance Commission (CFC), State Finance Commission (SFC) and State Plan, Scheme specific grants etc., to assist the ULBs in carrying out their mandated functions.

Details of funds, released during the years 2015-20, under CFC, SFC and State Plan and for implementing various centrally/state sponsored schemes, are given in **Table 3.4** below:

Table 3.4: Release of grants under CFC, SFC and CSS

| Sl. No. | Grant Head | Period | Funds released (₹in crore) |
|---------|--|-----------|----------------------------|
| 1. | 14 th FC | 2015-2020 | 2228.50 |
| 2. | 5 th SFC | 2015-2020 | 5139.07 |
| 3. | Smart City | 2015-2020 | 952.00 |
| 4. | Swachh Bharat Mission(SBM) | 2015-2020 | 1009.36 |
| 5. | Atal Mission for Rejuvenation and Urban Transformation (AMRUT) | 2015-2020 | 633.29 |
| 6. | National Urban Livelihoods Mission (NULM) | 2015-2020 | 197.95 |

(Source: 6th SFC report)

⁴⁷ (1) Urban forestry, protection of the Environment and promotion of ecological aspects (2) Safeguarding the interests of weaker sections of society including the handicapped and mentally retarded (3) Promotion of cultural, educational and aesthetic aspects and (4) Cattle pounds; prevention of cruelty to animals.

Details regarding short receipt/release, non-release and delayed release of grants under the 14th FC and 5th SFC, are discussed in the succeeding paragraphs (3.8.2 and 3.8.3) of the report.

It was observed that ULBs in the State had generated ₹ 1,214.57 crore from their own resources during 2015-20, while their establishment expenditure was ₹ 3,002.52 crore during the aforesaid period, which clearly indicated that ULBs were substantially dependent on grants from the government to meet even their establishment expenditure and they were not able to carry out the mandated functions from their own resources. Though the SFCs had recommended various measures⁴⁸ to be taken by the State Government as well as by the ULBs, to augment collection of revenue from their own resources and become self-reliant, these recommendations were not implemented satisfactorily.

(iii) Devolution of functionaries

Section 36 of BM Act, 2007, provided a number of posts for ULBs, but most of these posts were vacant. As per information furnished by the Department, as of August 2021, 2,982 posts were sanctioned for ULBs. Out of them, only 599 posts were filled up and 2,383 posts (80 *per cent* of the total posts) were vacant. The Status of sanctioned posts and persons-in-position in ULBs, has been given in **Appendix 3.2**.

Further, Executive/ Supervisory posts under various sections (Sanitation & Waste Management /Welfare & Registration/ Revenue & Audit/ Town Planning Section) were hundred *per cent* vacant while 84 *per cent* posts of City Manager, who played a very important role in carrying out the functions of ULBs, were still vacant. Vacancies in technical posts ranged between 15 *per cent* and 100*per cent*. Thus, there was an acute shortage of manpower, which adversely affected the functioning of ULBs.

The Ministry of Urban Development (MoUD) had suggested (2014) a model Municipal cadre for functioning of ULBs and the 5th SFC had recommended that the Model Staffing Pattern, as suggested by the MoUD, should be adopted in the State. As per the Model Staffing Pattern, for different types of Municipalities, 5,613 posts were recommended. However, the GoB sanctioned 3,194 posts only. The sixth SFC observed that the manpower at the disposal of the ULBs in the State, was grossly inadequate for effectively performing the mandated functions.

3.4 Formation of various Committees

3.4.1 Empowered Standing Committees

Section 21 and 22 of the BM Act, 2007, provided that, in every Municipality, there would be an ESC and the executive powers of a Municipality would be vested in the ESC. The Chief Councillor would exercise such powers and

⁴⁸ (i) Create a State-level Urban Regulator for setting user charges, standards for services, performance etc. (ii) Create a State Property Tax Board to optimize assessment, collection and recovery of property tax (iii) e-Tendering/ e-Auction be used to maximize revenue from properties and also from sairats and the existing non-transparent tendering process replaced. (iv) ULBs must start levying User Charges for Water Supply, Sewerage, SWM services, etc. to meet at least O&M cost of the services. (v) Surcharge of 2.5 per cent be levied on electricity consumption on behalf of the ULBs to cover electricity charges. (vi) All ULBs to prepare comprehensive Revenue Enhancement Plan etc.

functions, as delegated to him/her by the ESC. The prescribed composition of the ESCs is shown in **Table 3.5** below:

Table 3.5: Empowered Standing Committees

| Category of ULBs | Presiding Officer | Prescribed composition of ESC | Remarks |
|---|-----------------------|---|--|
| Municipal Corporation | Mayor | Mayor, Deputy Mayor and seven other Councillors | Other members of ESC shall be nominated by the Chief Councillor from amongst the elected Councillors within 7 days of his entering the office. |
| Class ‘A’ or ‘B’ Municipal Council | Municipal Chairperson | Municipal Chairperson, Municipal Vice-Chairperson and five other Councillors | |
| Class ‘C’ Municipal Council | Municipal Chairperson | Municipal Chairperson, Municipal Vice-Chairperson and three other Councillors | |
| Nagar Panchayat | Municipal President | Municipal President, Municipal Vice-President and three other Councillors | |

(Source: Section 21 of the BM Act, 2007)

The ESC was collectively responsible to the Municipal Corporation, the Municipal Council and the Nagar Panchayat, as the case may be. On constitution of the ESC, the UD & HD replied (August 2021) that ESCs had been constituted in all Municipalities in the State.

3.4.2 District Planning Committee

Article 243 ZD of the Constitution envisaged 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 (DDP), for the district as a whole. Accordingly, the GoB made provisions in BM Act, 2007 and framed the Bihar District Planning Committee and Conduct of Business Rules, 2006. Section 275 of BM Act, 2007, provided that all development plans to be executed by the ULBs, should be included in the DDP of the district, consolidated by the DPCs and approved by the State Government.

Audit observed that, though the elections of Panchayats and Municipalities were held in the years 2016 and 2017, respectively, the DPCs were re-constituted (February 2018) with delays of one to two years. Thus, DPCs did not exist during the period between 2016 and 2017. Further, even after constitution, DPC meetings were not held in four test-checked districts⁴⁹, till March 2021. As a result, the plans for execution of developmental works approved by the Municipalities could not be consolidated at the district level, and the DDP for the district could not be prepared and necessary scrutiny of plan could not be done. Further, the State was unaware of the regional plans, which had an important relation with the process of the development of the districts.

3.4.3 Municipal Accounts Committee

Section 98 of the BM Act, 2007, provides that the Municipality shall, at its first meeting in each year or as soon as may be at any meeting subsequent thereto, constitute a Municipal Accounts Committee. The important functions of the Committee were as follows;

⁴⁹ Darbhanga, East Champaran (Motihari), Saran and Siwan

- to examine the accounts of the Municipality showing the appropriation of sums granted to the Municipality for its expenditure and the annual financial accounts of the Municipality;
- to examine and scrutinize the report on the accounts of the Municipality by the Auditor appointed under BM Act, 2007; and
- to review and approve the Action Taken Report following each report by the Auditor and the Internal Audit.

In regard to the constitution of the Municipal Accounts Committee in ULBs, the Project Officer-cum-Additional Director, UD&HD, stated (August 2021) that Municipal Accounts Committees had not been constituted in ULBs. The reason for non-constitution of the Municipal Accounts Committees was not stated by the Department.

Thus, due to non-constitution of Municipal Accounts Committees, necessary scrutiny of accounts of Municipalities could not be ensured.

3.4.4 Subject Committee

Rule 32 of BMA 2007, provided that a Municipal Corporation or a Class 'A' Municipal Council, may from time to time constitute Subject Committees, consisting of Councillors, to deal with matters such as (a) water-supply, drainage and sewerage and solid waste management; (b) urban environment management and land use control; and (c) slum up-gradation and basic services for urban poor. The recommendations of a Subject Committee were to be submitted to the ESC, for its consideration.

The Project Officer-cum-Additional Director, UD&HD, stated (August 2021) that Subject Committees were not constituted. The reason for non-constitution of the Subject Committees was not stated by the Department.

Thus, due to non-constitution of Subject Committees, all functions/matters relating to the Committees remained unfulfilled.

3.4.5 Wards Committee

Section 30 of BMA, 2007, provided that every Municipal Corporation, having a population of three lakh or more, may at its first meeting after the election of Councillors thereto, or as soon as may be thereafter, group the Wards of the Corporation in such manner that each group consists of not less than three Wards, and constitute a Wards Committee for each such group. Each Wards Committee was to consist of the Councillors elected from the Wards constituting the group.

Within the local limits of the group of Wards and subject to the general supervision and control of the ESC, a Ward Committee was expected to discharge the functions of the Municipality, relating to the provision of supply-pipes and drainage and sewerage connections to premises, removal of accumulated water on the streets or public places, due to rain to otherwise, ensure collection and removal of solid waste, disinfection, provision of health immunization services, slum services, provision of lighting etc.

In this regard, the Project Officer-cum-Additional Director, UD&HD, replied (August 2021) that Wards Committees were not constituted in the ULBs. The

Sixth SFC had also observed that Wards Committees were not functional in the State. The reason for non-constitution of Wards Committee was not stated by the Department.

3.5 Audit Arrangement

3.5.1 Primary Auditor

Section 91(1) of the BM Act, 2007, provides that the accounts contained in the financial statements, including the accounts of special funds, if any, and the balance sheet, shall be examined and audited by the Director, Local Fund Audit (DLFA), or his equivalent authority or auditor appointed by the State Government from the panel of professional Chartered Accountants. Further, as per Section 91(2) of the BM Act, 2007 (amended in 2014), the CAG of India shall provide Technical Guidance and Support (TGS) over proper maintenance of accounts and audit of the accounts of ULBs and an Annual Report, prepared based on the TGS, shall be placed before the ESC of the Municipalities. Further, the CAG may, at his discretion, place the report before the State Legislature.

The State Government authorized (November 2007) the Examiner of Local Accounts (ELA) of the office of the Accountant General (Audit), Bihar to work as Director Local Fund Audit (DLFA). Accordingly, audit of ULBs was conducted by the ELA until adoption (December 2016) of the TGS system for audit of the accounts of Local Bodies (LBs).

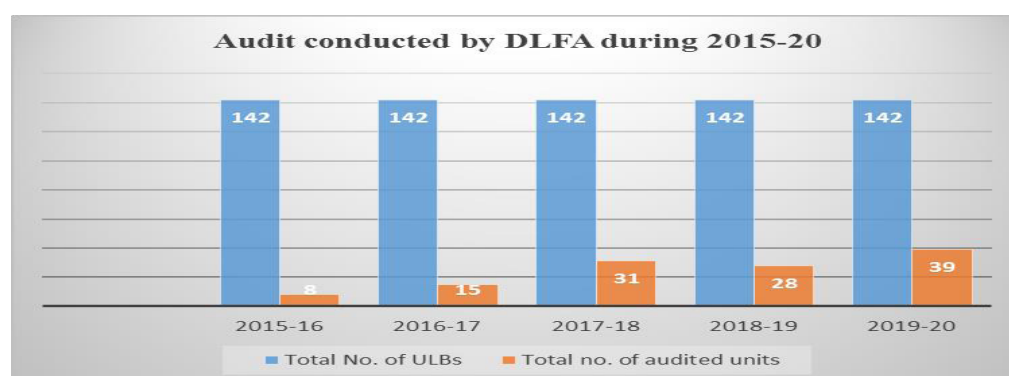
Further, in pursuance of the CFC, the State Government had notified (June 2015) the establishment of a Directorate of Local Fund Audit, headed by the Chief Controller of Accounts -cum- DLFA, under the Finance Department, GoB, to conduct the audit of LBs, which had been functioning since 11 June 2015. The terms and conditions for audit of the accounts of LBs, under TGS arrangement, as laid in the Regulations on Audit and Accounts, 2007 were accepted by the GoB in December 2015 and, subsequently, audit of the accounts of LBs, under TGS, was initiated in the State, by the CAG, since January 2017. Consequently, the DLFA started functioning in the role of Primary External Auditor since January 2017.

The DLFA had conducted audit of the accounts of 121 ULBs only during the financial years 2015-16 to 2019-20, as detailed in **Table 3.6** and **Chart 3.3** below:

Table 3.6: Audit conducted by DLFA

| Financial year | Total No. of ULBs | Audit conducted | | | | Percentage of audit conducted |
|----------------|-------------------|-----------------------|-------------------|-----------------|------------|-------------------------------|
| | | Municipal Corporation | Municipal Council | Nagar Panchayat | Total | |
| 2015-16 | 142 | 0 | 7 | 1 | 8 | 6 |
| 2016-17 | 142 | 11 | 4 | 0 | 15 | 11 |
| 2017-18 | 142 | 0 | 16 | 15 | 31 | 22 |
| 2018-19 | 142 | 0 | 15 | 13 | 28 | 20 |
| 2019-20 | 142 | 7 | 18 | 14 | 39 | 27 |
| Total | | 18 | 60 | 43 | 121 | |

(Source: Information furnished by DLFA)

Chart 3.3: Audit conducted by DLFA

It is evident from the table above that the DLFA had audited a very low number of ULBs units, ranging from 6 *per cent* to 27 *per cent* of the total number of ULBs in the State, during 2015-20. The DLFA stated that the low coverage of units was due to acute shortage of manpower with the Directorate of Local Fund Audit.

- **Poor response to Inspection Reports (IRs) issued by DLFA**

Audit observed that the status of compliance of audit paragraphs, contained in the IRs, was not satisfactory, as evident from the huge number of audit paragraphs contained in the IRs, which had remained outstanding for settlement, as of August 2021, as shown in **Table 3.7** below:

Table 3.7: Outstanding paragraphs in ULBs for the financial years 2014-15 to 2020-21

(₹ in crore)

| Financial year | No of IRs issued | No. of paras in IRs | Amount involved | No of paras settled | Amount of settlement | No of Paras outstanding | Money value of paras outstanding |
|--------------------|------------------|---------------------|-----------------|---------------------|----------------------|-------------------------|----------------------------------|
| 2014-15 To 2018-19 | 27 | 404 | 119.44 | 2 | 0.01 | 402 | 119.43 |
| 2019-20 | 6 | 112 | 556.52 | 2 | 0.06 | 110 | 556.46 |
| 2020-21 | 4 | 64 | 29.42 | 0 | 0 | 64 | 29.42 |
| Total | 37 | 580 | 705.38 | 4 | 0.07 | 576 | 705.31 |

(Source: Information furnished by the DLFA)

It is evident from the table above that, out of a total 580 paragraphs contained in 37 IRs, issued by the DLFA for the FYs 2014-15 to 2020-21, only four paragraphs (0.69 *per cent*) were settled, while 576 paragraphs involving an overall amount of ₹ 705.31 crore were pending for settlement, as of August 2021. Reasons for the low settlement of audit paragraphs were not stated by the DLFA.

The large number of audit paragraphs pending for settlement indicated weak internal control in ULBs and inaction on the part of the authorities concerned in ensuring compliance of audit paragraphs.

3.5.2 Audit by the Comptroller and Auditor General of India

The Eleventh Finance Commission had recommended that the CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit for all tiers/levels of LBs and his Annual Technical Inspection Report (ATIR), as well as Annual Report of the DLFA, must be placed before the State Legislature.

The Finance Department, GoB, intimated (December 2015) that the State Government had accepted the Standard Terms and Conditions under the Regulations on Audit and Accounts, 2007, for audit of LBs under TGS arrangement. Consequently, audit under the TGS arrangement commenced in the State from January 2017. The AG (Audit) Bihar had accordingly, conducted audit of 86 ULBs, during 2017-20, under TGS arrangement.

Further, the DLFA conducted audit of the accounts of 67 ULBs units during 2018-20 but did not forward any IR to AG (Audit) for TGS till July 2021, despite requests being made (Various letters were issued to the DLFA from July 2018 to till January 2022) to provide IRs for TGS. Thus, technical guidance and quality improvement in IRs could not be suggested by AG (Audit), Bihar and the objective of providing TGS to the audit of LBs conducted by the DLFA could not be fulfilled.

3.6 Response to Audit Observations

3.6.1 Poor response to IRs issued by the AG (Audit)

Consequent upon completion of field audit, IRs, containing audit findings, were to be sent to the audited entities with a copy to the concerned Department of the GoB. The Municipal Commissioners/Executive Officers of the audited entities concerned were required to respond to observations contained in the IRs and submit compliance reports within three months from the date of receipt of the IRs.

Audit observed that Municipal Commissioners/Executive Officers did not take effective steps to furnish compliance of the audit observations contained in the IRs, which was evident from increasing number of outstanding audit paragraphs, year by year. The status of settlement of audit paragraphs for the last five years, as of September 2021, is given in **Table 3.8** and in **Chart 3.4** below:

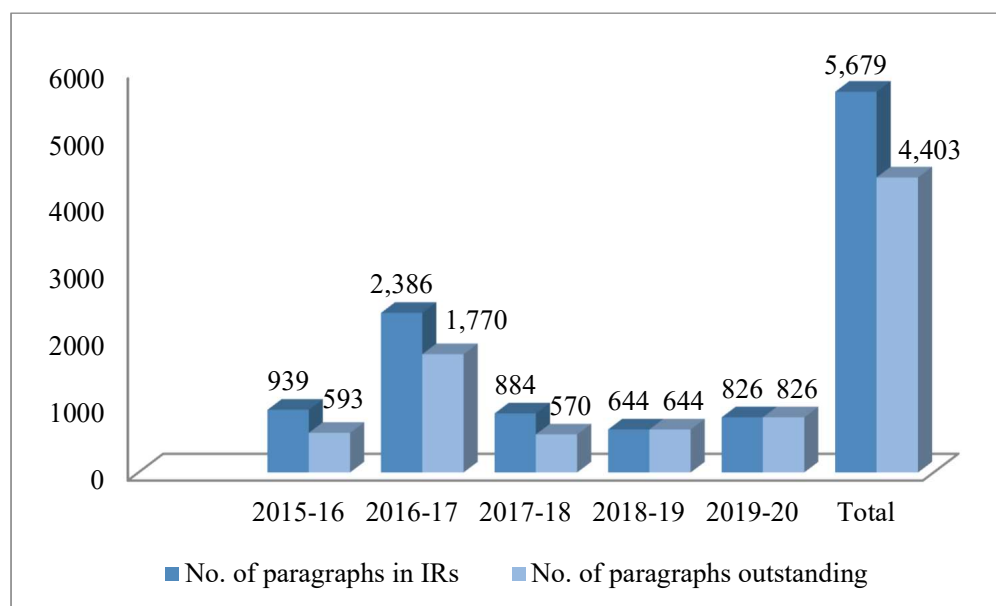
Table 3.8 Outstanding audit paragraphs for the last five financial years (FYs 2015-16 to 2019-20)

(₹ in crore)

| Financial year | No. of IRs | No. of paragraphs in IRs | Amount involved | No. of paragraphs settled | Amount of settlement | No. of paragraphs outstanding | Money value of paragraphs outstanding |
|----------------|------------|--------------------------|-----------------|---------------------------|----------------------|-------------------------------|---------------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 (3-5) | 8 (4-6) |
| 2015-16 | 33 | 939 | 68.5 | 346 | 3.27 | 593 | 65.23 |
| 2016-17 | 86 | 2,386 | 377.31 | 616 | 0.66 | 1,770 | 376.65 |
| 2017-18 | 32 | 884 | 957.61 | 314 | 3.36 | 570 | 954.25 |
| 2018-19 | 31 | 644 | 383.46 | 0 | 0 | 644 | 383.46 |
| 2019-20 | 27 | 826 | 731.90 | 0 | 0 | 826 | 731.90 |
| Total | 209 | 5,679 | 2,518.78 | 1,276 | 7.29 | 4,403 | 2,511.49 |

(Source: Inspection Reports of ULBs)

Chart 3.4: Outstanding audit paragraphs for the financial years 2015-16 to 2019-20



It is evident from the Table above that, out of total 5,679 audit paragraphs contained in 209 IRs, only 1,276 paragraphs (22 per cent) were settled whereas, 4,403 paragraphs involving ₹ 2,511.49 crore remained outstanding till September 2021.

The large number of paragraphs outstanding for settlement indicated lack of efforts by the Municipal authorities in furnishing compliance to audit observations. Lack of action on compliance of IRs was fraught with the risk of perpetuating serious financial irregularities pointed out in these reports.

3.6.2 Compliance to the ELA's and CAG's Annual Audit Reports

In the State, the report of the ELA was prepared for the financial years 2005-06 to 2013-14. Thereafter, CAG's Audit Reports on LBs, for the financial years 2014-15 and 2015-16, were prepared.

• ELA's Annual Report

The Finance Department, GoB, constituted (March 2010) three-tier of Committees viz. High Level, Departmental Level and District Level, for review/ compliance of the Annual Audit Reports prepared by the ELA. The District Level Committee⁵⁰ had the responsibility of ensuring compliance of audit paragraphs/ reports received by the ULBs in that district. The Department Level Committee⁵¹ had to review the status of compliance made by the District Level Committees while the High Level Committee⁵² had to meet once in six months to review the functioning of the District Level and Department Levels Committees.

⁵⁰ Headed by the District Magistrate/Deputy Development Commissioner

⁵¹ Headed by the Principal Secretary/Secretary of the UD&HD, GoB

⁵² Headed by the Principal Secretary to the Finance Department, GoB and the Principal Accountant General (Audit), Bihar as a member.

It was, however, observed that, during the financial year 2019-20, no District Level Committee meeting was held, (against the proposed 84 meetings). As such, the audit paragraphs contained in the ELA's report remained unsettled. Further, no meeting of the Department Level, or High Level Committee, was held during 2019-20. The last High Level Committee meeting and Department Level Committee meetings were held in August 2013 and July 2015, respectively.

Thus, the purpose of constitution of these three level Committees was defeated and the audit observations contained in the ELA's Annual Audit Report remained unattended.

- **Compliance to C&AG's Report on LBs**

As per the provisions contained in Section 91 (2) of the BM Act, 2007, the Annual Report on account of ULBs, prepared by the CAG, shall be laid on the both Houses of State Legislatures. However, as per amendment in the Act in the year 2014, it was provided that the CAG of India shall provide TGS over the proper maintenance of accounts and audit thereof of ULBs.

The first CAG's Report on LBs, GoB, for the year ended March 2015, was tabled in the State Legislature on 4 April 2016. Five paragraphs of the report were discussed in 12 meetings of Public Accounts Committee held during June 2016 to June 2021 but no audit observation was settled till June 2021.

Further, the CAG's Report on LBs, for the financial year ended March 2016, was tabled in the State Legislature on 23 August 2017.

Accountability Mechanism and Financial Reporting Issues

3.7 Accountability Mechanism

3.7.1 Lok Prahari (Ombudsman)

Section 44(1) of the BM Act, 2007, provides for appointment of *Lok Prahari* (Ombudsman) for looking into any allegations of corruption, lack of integrity, malpractice *etc.*, of the authorities of the ULBs. The qualification, terms and conditions and tenure of appointment and the powers and duties of the *Lok Prahari* (Ombudsman) shall be as may be prescribed by the Government. The 13th FC and the 5th SFC had also recommended putting in place a system of independent LB *Lok Prahari* (Ombudsman). Further, a letter was issued (February 2018) by the Ministry of Housing & Urban Affairs, GoI, to the Chief Secretary, GoB, regarding appointment of "*Lok Prahari* (Ombudsman)" for the ULBs in Bihar.

On the issue of non-appointment of *Lok Prahari*(Ombudsman), the UD&HD stated (August 2021) that appointment of *Lok Prahari* was still under process.

Thus, despite provision in BM Act 2007, and recommendations made by the Central and State Finance Commissions, appointment of *Lok Prahari* (Ombudsman) was not done.

3.7.2 Social Audit

The basic objective of Social Audit is to ensure public accountability in the implementation of projects, laws and policies, through public participation. The 5th SFC had recommended that Social Audit was to be conducted in ULBs as an accountability measure and Social Audit for slum and poverty alleviation programmes should be a must. The sixth SFC also recommended that the practice of Social Audit may be introduced in ULBs. However, Social Audit of schemes implemented by ULBs was not conducted. The UD&HD did not furnish the reason for non-conduct of Social Audit.

Thus, despite recommendation of SFCs, Social Audit was not carried out. As a result, public accountability in the implementation of projects, laws and policies, through public participation, could not be ensured by ULBs.

3.7.3 Property Tax Board

Section 138(A) of the BM Act, 2007, provides for putting in place a State level Property Tax Board, for putting in place an independent and transparent procedure, to optimize the assessment, collection and recovery of Property Tax. The 13th FC had also recommended the setting up of a State level Property Tax Board, to assist ULBs in putting in place an independent and transparent procedure for assessing Property Tax.

The UD&HD, GoB had framed and notified (May 2013) the Bihar Property Tax Board Rules, 2013. The roles and responsibilities of the Property Tax Board were (a) to undertake directly or through an agency, enumeration of all lands and buildings in each municipality, once in five years to widen the tax net and maintain an updated database of properties in the ULBs in the State (b) suggest to the State Government, methods and procedures for review and updating of the rental values or market values of lands and buildings every five years or earlier (c) suggest measures for making the Holding Tax system more buoyant and (d) to review and evaluate the performance of each ULB, in regard to assessment of land from Holding Tax against a pre-determined target and suggest improvements on a continuous basis etc.

On the issue of constitution of the Property Tax Board, the UD&HD replied (August 2021) that the Property Tax Board had not been constituted. The reply has to be seen in context of the Department had stated, in October 2016, that constitution of the Property Tax Board was under process.

Thus, due to non-constitution of the Property Tax Board, even after a lapse of more than eight years since the framing of the Property Tax Board Rules, widening of the tax net, and collection and recovery of Property Tax in ULBs could not be optimized. Further, the performance of each ULB could not be evaluated on a continuous basis as had been envisaged.

3.7.4 Service Level Benchmarks

The 13th FC recommended that State Government must gradually put in place standards for delivery of all essential services provided by LBs. State Governments were to notify, or cause all the Municipalities to notify by the

end of a fiscal year (31 March), the service standards for four⁵³ service sectors, to be achieved by them by the end of the succeeding fiscal year. Accordingly, the UD&HD had notified (March 2011) Service Level Benchmarks (SLBs) for services to be provided by the ULBs.

The Department provided data relating to achievement against the target, in respect of one indicator under coverage of water supply, one indicator under coverage of toilets and partial data of coverage of sewerage network only. Data showing the progress in respect of other sectors and indicators was not made available.

From analysis of the data, it was observed that achievement, against the target set by the Department in respect of the indicator pertaining to coverage of water supply, in Municipal Corporations, Municipal Councils and Nagar Panchayats, ranged between nil (Munger) and 180 *per cent* (Biharsharif); 21 *per cent* (Farbisganj) and 153 *per cent* (Bakhtiyarpur); and nil (Harnaut and Rafiganj) and 174 *per cent* (Janakpur Road), respectively. Further, achievement in respect of coverage of toilets in Municipal Corporations, Municipal Councils and Nagar Panchayats ranged between 77 *per cent* and 100 *per cent*, 86 *per cent* and 100 *per cent* and 85 *per cent* and 100 *per cent*, respectively (*Appendix 3.3*).

Further, achievement of more than 100 *per cent* of the target indicated that the target has been set without proper survey of the households and their requirements. However, the Department stated that with the passage of time, the number of households under the municipal areas had increased and, therefore, coverage was shown more than the target set. In respect of coverage of the storm water drainage network, the Department stated that construction was in progress.

Thus, even after a lapse of more than 10 years of publishing of the SLBs, all ULBs did not achieve the targets in regards to the indicators under four service sectors.

3.7.5 Fire Hazard Response

As per the 13th FC's recommendation, all Municipal Corporations with a population of more than one million (2001 census) must put in place a Fire Hazard Response and Mitigation Plan for their respective jurisdictions. In Bihar, the population of only one ULB (Patna Municipal Corporation) was more than one million, as per the 2011 census.

The UD&HD, GoB, had notified (March 2011) the Fire Hazard Response and Mitigation Plan for the Patna Municipal Corporation (PMC). On functioning & implementation of the Fire Hazard Response and Mitigation Plan in PMC, the Project Officer-cum-Additional Director, UD&HD stated (August 2021) that the plan was still to be implemented by the PMC.

3.7.6 Submission of Utilisation Certificates

Rule 342 (1) of the Bihar Financial Rules (BFR) provides that Utilisation Certificates (UCs) of the grants were to be submitted by the grantee entities

⁵³ *Water supply, Sewerage, Storm water drainage and Solid waste management*

within 18 months from the date of receipt of the grants. Instructions contained in the allotment letters of the funds released to the ULBs also required furnishing of the UCs to the State Government in a timely manner, to avoid delay in further release of grants.

The status of year wise release of grants to ULBs during the financial years 2015-16 to 2019-20 and the UCs pending as of January 2020, is given in **Table 3.9** below:

Table-3.9: Percentage of pending UCs

(₹ in crore)

| Financial Year | Grant Released | Outstanding UCs | Percentage of Pending UCs |
|----------------|------------------|-----------------|---------------------------|
| 2015-16 | 1,826.28 | 990.52 | 54 |
| 2016-17 | 3,135.50 | 936.96 | 30 |
| 2017-18 | 1,794.52 | 1,626.61 | 91 |
| 2018-19 | 2,892.56 | 2,286.54 | 79 |
| 2019-20 | 1,929.25 | 1,899.16 | 98 |
| Total | 11,578.11 | 7,739.79 | 67 |

{Source: Finance accounts of AG (A&E)}; (NA: Not available)

It is evident from the table above that 30 per cent to 98 per cent of UCs were pending in respect of grants released during the FYs 2015-16 to 2019-20. The Assistant Director-cum-Joint Secretary, UD & HD replied (July 2021) that camp had been organized (January 2021 and February 2021), by the Department, to obtain UCs from the ULBs and the same process would be adopted for obtaining UCs for remaining amounts.

The huge pendency of UCs, for a long period indicated weak internal control and a poor monitoring mechanism and was fraught with the risk of mis-utilisation of funds.

3.7.7 Internal Audit and maintenance of accounts

• Internal Audit

The Department had engaged (April 2016) 17 CAs for internal audit of the accounts of 140 Municipalities for the years 2014-17. Further, during the financial years 2017-18 to 2019-20, six CA firms were engaged (January 2019) by the Department, for audit. Audit of the accounts of ULBs was to be completed till September 2020. The status of audit by CAs, as of September 2021, is given in **Table 3.10** below:

Table 3.10: Units audited and reports submitted

| Sl. No. | Financial Year | Audit to be conducted | Audit completed | Reports submitted by the CA firms |
|--------------|----------------|-----------------------|-----------------|-----------------------------------|
| 1. | 2015-16 | 140 | 140 | 138 |
| 2. | 2016-17 | 140 | 140 | 138 |
| 3. | 2017-18 | 140 | 140 | 123 |
| 4. | 2018-19 | 140 | 140 | 122 |
| 5. | 2019-20 | 140 | 103 | 33 |
| Total | | 700 | 663 | 554 |

(Source: Information provided by UD&HD, Bihar)

It is evident from the above table that out of 700 internal audits, 663 internal audits had actually been conducted during 2015-20 but only 554 reports had been submitted by the CA firms till September 2021.

• **Maintenance of accounts by ULBs in DEAS**

The Ministry of Urban Development, GoI, in consultation with the CAG, had prepared (2004) the National Municipal Accounts Manual for maintenance of accounts on accrual basis by ULBs. Sections 86, 87 & 88 of the BM Act, 2007 also stipulate that the State Government shall prepare a Bihar Municipal Accounting Manual for implementation of the accrual based Double Entry Accounting System and the Chief Municipal Officer shall, within four months of the close of a year, cause to prepare financial statements consisting of a Fund Flow Statement, an Income and Expenditure Account, Receipt and Expenditure Account and a Balance Sheet for the preceding year. The UD&HD notified (January 2014) the ‘Bihar Municipal Accounting Rules, 2014’, for preparation and maintenance of financial statements on accrual based Double Entry System in Municipalities, from 1 April 2014, based on the National Municipal Accounts Manual (NMAM), issued by the Ministry of Urban Development (GoI),

Further, the UD&HD had engaged (January 2019 and November 2019) six CA firms, for maintenance of accounts of 124 out of 140 ULBs, in the Double Entry Accounting System (DEAS), for the financial years 2012-13 to 2019-20. In 18 ULBs, accounts for the FYs 2012-13 to 2019-20, in 26 ULBs accounts for the FYs 2014-15 to 2019-20 and in 80 ULBs, accounts for the FYs 2016-17 to 2019-20, were to be prepared in DEAS. As per the agreement executed, the CA firms had to prepare and update the Subsidiary Cash Books, Grants Register, Scheme Register, Fixed Assets Register (FAR), Property Tax Receivables (PTR) and various other returns. The maintenance of accounts was to be completed till July-August 2021 as per the details given in **Table 3.11** below:

Table-3.11: Status of maintenance of accounts of ULBs in DEAS by CAs

| Sl. No. | No. of ULBs | Scope of works | Work awarded/ completion date | Remarks |
|---------|-------------|--|--|---|
| 1. | 35 | Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2016-17 to 2019-20 and Preparation of Financial Statements for the FYs 2016-17 to 2019-20. | January –November 2019/July –August 2021 | Accounts compiled for the FYs 2014-15 and 2015-16 |
| 2. | 45 | Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2016-17 to 2019-20 and Preparation of Financial Statements for the FYs 2016-17 to 2019-20. | January –November 2019/July –August 2021 | Accounts compiled for the FYs 2014-15 and 2015-16 |
| 3. | 18 | Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2012-13 to 2019-20 and Preparation of Financial Statement for the FYs 2012-13 to 2019-20. | January –November 2019/July –August 2021 | Accounts compiled for the FYs up to 2011-12. |

| Sl. No. | No. of ULBs | Scope of works | Work awarded/ completion date | Remarks |
|--------------|-------------|---|--|---------|
| 4. | 26 | Updation of Property Tax Receivables and Fixed Asset Register for the FYs 2014-15 to 2019-20 and Preparation of Financial Statement for the FYs 2014-15 to 2019-20. | January –November 2019/July –August 2021 | |
| Total | 124 | | | |

(Source: Information furnished by the PRD)

However, maintenance of accounts in DEAS was not completed by the CA firms, in any of the ULBs, for any of the years, till 20 September 2021.

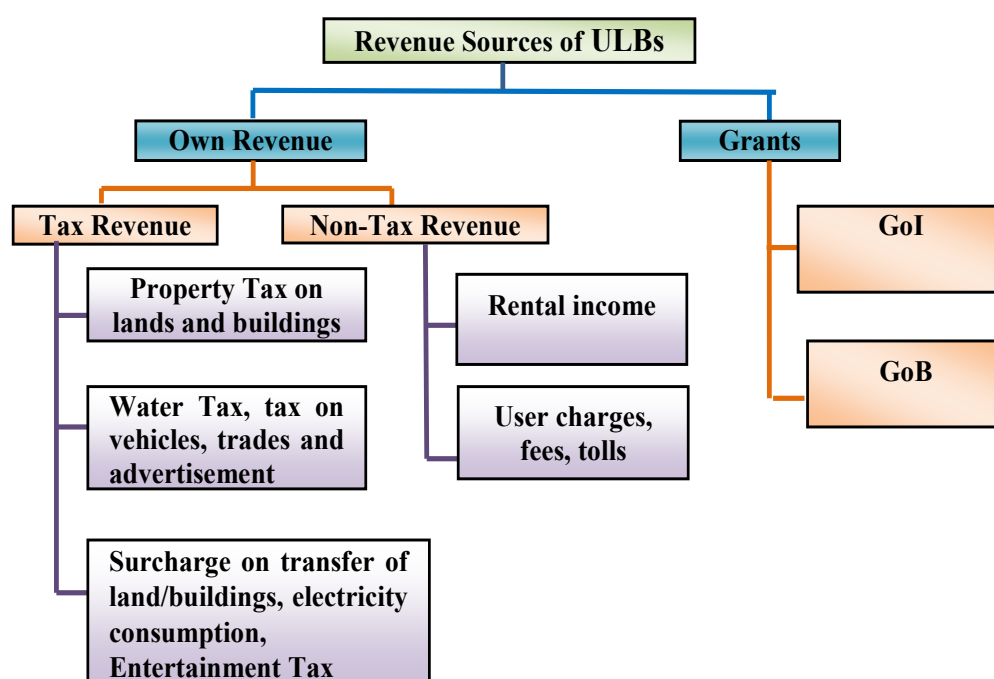
3.8 Financial Reporting Issues

3.8.1 Sources of Funds

3.8.1.1 Sources of Funds

The Bihar Municipal Act, 2007, lists out the set of taxes which Municipalities may levy for raising revenues. The Municipalities may levy user-charges additionally, for delivering various services, as mentioned in the Act. The fees and fines are also leviable on the sanction of building plans, municipal license for uses of lands etc. The BM Act also provides for grants - in - aid for them, on the recommendation of CFC and SFC. Sources of funds of ULBs are shown in Chart 3.5 below:

Chart 3.5: Sources of Funds



(Source: Section 127 of BM Act, 2007 and Economic Survey, GoB)

3.8.1.2 State Budget allocation vis-à-vis expenditure

The budget provisions made by the State Government for the UD&HD (including ULBs), state share towards the GoI Schemes and grants received under the recommendations of CFCs and SFCs, for the years 2015-20, are given in **Table 3.12** below:

Table 3.12: Budget allocation vis-à-vis expenditure

(₹ in crore)

| Sl. No. | Particulars | Head | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | Total |
|---------|----------------------|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 (3 to 7) |
| 1. | Budgetary Allocation | Revenue | 3,111.15 | 4,622.75 | 5,047.93 | 5,361.29 | 6,235.04 | 24,378.16 |
| | | Capital | 37.73 | 0.00 | 0.00 | 3.00 | 160.00 | 200.73 |
| | | Total | 3,148.88 | 4,622.75 | 5,047.93 | 5,364.29 | 6,395.04 | 24,578.89 |
| 2. | Expenditure | Revenue | 1,977.47 | 3,377.93 | 3,236.04 | 3,297.02 | 2,984.53 | 14,872.99 |
| | | Capital | 0.00 | 0.00 | 0.00 | 3.00 | 160.00 | 163.00 |
| | | Total | 1,977.47 | 3,377.93 | 3,236.04 | 3,300.02 | 3,144.53 | 15,035.99 |
| 3. | Saving (1-2) | | 1,171.41 | 1,244.82 | 1,811.89 | 2,064.27 | 3,250.51 | 9,542.90 |
| 4. | Percentage of saving | | 37 | 27 | 36 | 38 | 51 | 39 |

(Source: Appropriation Accounts of Government of Bihar)

It is evident from the table above that UD&HD could not utilize the budgetary allocation fully and the percentage of savings ranged between 27 per cent and 51 per cent, during 2015-20. Moreover, the total allocation under Capital head was less than one per cent of the total allocation by the State during 2015-20, yet the allocation under the Capital head could not be fully utilized.

3.8.1.3 Receipts and Expenditure of ULBs

As per the 6th SFC Report, tax and non-tax revenue of all ULBs from their own resources taken together, was ₹ 1,214.57 crore. This constituted only 7 per cent of the total revenues of ₹ 16,805.54 crore of the ULBs during the FYs 2015-16 to 2019-20 {*Appendix 3.4 (A)*}. The establishment expenditure (over salary, wages and other administrative expenses) of ULBs, for the FYs 2015-16 to 2019-20, was ₹ 3,002.52 crore (20.2 per cent of the total expenditure), indicating that the self-generated income (Own tax & non-tax revenue) of ULBs was not sufficient to meet even their establishment expenses {*Appendix 3.4 (B)*}.

Thus, Municipalities were substantially dependent on Government grants rather than on self-generated income for carrying out their mandated functions and were still far from being self-reliant.

3.8.2 Recommendations of the 14th Central Finance Commission

Fourteenth Finance Commission

As per the recommendations of the 14th Finance Commission, grants were released under two components i.e. Basic Grant (BG) and Performance Grant (PG). The BG was to be utilised for providing basic services viz. water supply, sanitation, sewerage, storm water drainage, solid waste management etc. while the PG were designed to serve the purpose of ensuring reliable audited accounts and data of receipt and expenditure and improvement of own revenue. GoI had

to release BG for a year, to the State in two instalments, in June and October. The division of grants between BG and PG was to be in the ratio of 80:20 for Municipalities. The 14th FC had laid the following three conditions, which would enable the ULBs to become eligible for PG:

- ULBs would have to submit audited annual accounts that relate to a year not earlier than two years preceding the year in which they seek to claim the Performance Grant.
- They would also have to show an increase in own revenues over the preceding year, as reflected in these audited accounts; and
- They must publish the service level benchmarks relating to basic urban services each year for the award period and make them publically available.

The grants recommended by the 14th FC and released to GoB, during the FYs 2015-16 to 2019-20, are given in **Table 3.13** below:

Table-3.13: Entitlement and Receipt of FFC grant in Bihar

(₹ in crore)

| Financial Year | BG | | | | | PG | | |
|----------------|-----------------|-----------------------|-----------------------|-----------------|---------------|---------------|---------------|---------------|
| | Entitled | Released | | | Short receipt | Entitled | Released | Short receipt |
| | | 1 st Inst. | 2 nd Inst. | Total | | | | |
| 2015-16 | 256.83 | 128.41 | 126.59 | 255.01 | 1.82 | 0 | 0 | 0 |
| 2016-17 | 356.83 | 176.55 | 175.30 | 351.85 | 4.98 | 104.96 | 104.22 | 0.74 |
| 2017-18 | 410.90 | 202.55 | 202.55 | 405.11 | 5.79 | 118.78 | 0 | 118.78 |
| 2018-19 | 475.34 | 237.67 | 236.01 | 473.68 | 1.66 | 134.89 | 0 | 134.89 |
| 2019-20 | 642.28 | 318.89 | 318.89 | 637.79 | 4.49 | 176.22 | 0 | 176.22 |
| Total | 2,142.18 | 1,064.07 | 1,059.34 | 2,123.44 | 18.74 | 534.85 | 104.22 | 430.63 |

(Source: 6th SFC report Grant Sanctioning letters, allotment letters)

The State Government received a total sum of ₹ 2,227.66 crore in form of BG (₹ 2,123.44 crore) and PG (₹ 104.22 crore) against the entitlement of ₹ 2,677.03 crore (BG - ₹ 2,142.18 crore and PG- ₹ 534.85 crore). Thus, GoB received less BG, amounting to ₹ 18.74 crore, than it was entitled for, during the FYs 2015-16 to 2019-20, for Municipalities. The Reason of short-receipt of BG by GoB was not furnished by the Department. Further, the GoB could not receive the total amount of ₹ 430.63 crore for the FYs 2016-17 to 2019-20 as the State Government did not fulfill the mandatory conditions, as laid down by the 14th FC, for the release of PG.

3.8.3 Recommendations of the State Finance Commission

5th State Finance Commission

State Finance Commissions were constituted by the GoB to review the financial position of LBs and recommend the principles for governing the distribution of net proceeds of taxes, duties *etc.*, between the State and the LBs.

The GoB constituted (December 2013) the 5th SFC for the period 2015-20 in pursuance of Article 243-Y read with Article 243-I of the Constitution and

Section 71 of BM Act, 2007, to review the financial position of LBs and to recommend the principles to govern the distribution of net proceeds of taxes, duties etc., between the State and the LBs. Though the report of the Commission was due on 31 March 2015, it was submitted in February 2016. Consequently, the State Government decided to implement the recommendations of the 5th SFC from the year 2015-16 with some amendments. The status of release of grants to ULBs, under 5thSFC, is given in **Table- 3.14** below:

Table-3.14: Status of release of grants under Fifth SFC recommendation*(₹ in crore)*

| Financial Year | Due month for release of amount | | Entitlement amount | Amount released and month of release | | | Delay | | Short release |
|----------------|-----------------------------------|-----------------------|--------------------|--------------------------------------|-------------------------------|---------------------|-----------------------|-----------------------|---------------|
| | 1 st inst. | 2 nd Inst. | | 1 st inst. | 2 nd Inst. | Aadarsh Nagar Nikay | 1 st inst. | 2 nd Inst. | |
| 2015-16 | Grants to be released in one lump | | 781.32 | 434.64 (21 March 2016) | Not released | 00 | ---- | - | 346.68 |
| 2016-17 | 30 April 2016 | 31 October 2016 | 925.85 | 462.93 (19 October 2016) | 449.93 (29 March 2017) | 13.00 | 172 days | 149 days | 0 |
| 2017-18 | 30 April 2017 | 31 October 2017 | 1041.45 | 509.60 (14 September 2017) | 497.25 (3 July 2018) | 11.12 | 137 days | 245 days | 23.48 |
| 2018-19 | 30 April 2018 | 31 October 2018 | 1114.54 | 508.53 (10 July 2018) | 541.89 (13 August 2019) | 2.83 | 71 days | 286 days | 61.19 |
| 2019-20 | 30 April 2019 | 31 October 2019 | 1278.75 | 563.24 (13 August 2019) | 714.61 (15 September 2020) | - | 105 days | 320 days | 0.90 |
| Total | | | 5141.91 | 2478.94 | 2203.68 | 26.95 | | | 432.25 |

(Source: 6th SFC Report and Information provided by UD& HD)

It is evident from the table above that there was short release of grant for ₹ 432.25 crore for the FYs 2015-16 to 2019-20. Further, the first instalments, for the FYs 2016-17 to 2019-20, were released with delays of 71 to 172 days and the second installments were released with delay of 149 to 320 days, during the FYs 2016-17 to 2019-20.

Moreover, it was mentioned in the 6th SFC Report that ULBs (having low own revenue) were substantially dependent on CFC and SFC transfers to garner resources for rendering mandated core services.

3.8.4 Maintenance of Records

Rules 12, 53, 69 and 84 of the Bihar Municipal Accounting Rules, 2014 prescribe maintenance of basic records, registers for transparency, accountability and proper watch over of accounts of ULBs. Audit observed that the 12 test-checked ULBs did not maintain key records (*Appendix 3.5*).

The Executive Officer of Nagar Parishad, Masaurahi, replied that, due to shortage of staff, the records could not be maintained, while Executive Officers of the other ULBs replied that the records would be maintained in future.

3.8.5 Non- Preparation of Bank Reconciliation Statement

Section 13(5) of BMAR, 2014, provided that the actual balance in the bank or treasury should be compared and reconciled with the bankbook balance periodically at least once at the end of every month.

Audit observed that four test checked ULBs⁵⁴ did not prepare Bank Reconciliation Statements (BRS) (**Appendix- 3.6**). On this being pointed out in audit, Executive Officers of all test-checked ULBs (except Nagar Nigam, Gaya) replied that BRS would be prepared, while Nagar Nigam, Gaya, did not furnish any reply. Further, at the Departmental level, Project Officer-cum-Additional Director, UD&HD, replied (August 2021) that presently, BRS was not being prepared fully by the ULBs.

Non-preparation of BRS on regular basis as required under BMAR, 2014, was fraught with the risk of misappropriation of municipal funds and indicated poor monitoring of funds in ULBs.

3.8.6 Capacity Building

Full capacity building and ‘reforms’ in the ULBs were at the core of the 5th SFC recommendations. The 6th SFC had, however, observed that ULBs in Bihar still suffered from capacity constraints in terms of skilled manpower, IT facilities, equipment, office space, etc., leading to meagre utilization of available funds, inability to avail central resources, poor project implementation, also less than satisfactory delivery of services. However, no training programmes were organized by the UD&HD, during 2019-20.

The UD&HD stated (August 2021) that, due to Covid-19, training programmes for the financial years 2019-21 could not be conducted. The reply was partially acceptable, as the Covid-19 pandemic was not prevalent during the period 2019-20.

3.8.7 Issues related to AC/DC Bills

Rule 177 of the Bihar Treasury Code (BTC), 2011 provides that a certificate shall be furnished by the Drawing and Disbursing Officer to the effect that money withdrawn on the contingent bills shall be spent within the same financial year and the unspent amount shall be remitted to the Treasury before 31 March of the year. Further, as per Rule 194 of the BTC, 2011, countersigned Detailed Contingent (DC) bills shall be submitted to the AG (A&E) within six months following the month in which the Abstract Contingent (AC) bill was drawn and no AC bill shall be encashed after the end of this period of six months, unless the DC bill has been submitted. Details of unadjusted AC bills along with reasons, are given in **Table- 3.15** below:

⁵⁴ *Municipal Corporation- Gaya; Municipal Council-Madhubani and Nagar Panchayat-Jaynagar and Rajgir*

Table-3.15: Details of AC bills pending for adjustment

(₹ in crore)

| Financial Year | A.C bill amount | Submitted D.C bill | Unadjusted A.C bill | Remarks |
|----------------|---------------------------------------|--------------------|---------------------|---|
| 2002-19 | 13.12 | 0 | 13.12 | Amount drawn through AC Bills, DDO was not Clear |
| 2009-11 | 5.93 | 3.04 | 2.89 | Amount drawn through AC Bills, DC Bills were not Submitted by DDO to AG(A &E) |
| 2002-19 | 14.79 | 6.00 | 8.79 | Amount drawn through AC Bills, DC Bills were pending with District Magistrate (DM). |
| 2002-19 | 18.13 | 5.50 | 12.63 | Amount drawn through AC Bills, DC Bills were pending to ULBs and BUIDCO. |
| 2019-21 | Amount Drawn through AC Bill was Nil. | | | |
| Total | 51.97 | 14.54 | 37.43 | |

(Source: Information furnished by UD&HD)

As evident from the table above, ₹ 51.97 crore was withdrawn through AC bills during the financial years 2002-03 to 2018-19 and further no amount was drawn through AC bills during FYs 2019-21, Out of this, ₹ 14.54 crore was adjusted by AG (A&E) and ₹ 37.43 crore (72 per cent) remained outstanding for adjustment (as of March 2021). Reasons for pending adjustment of AC bills were (i) DDO not cleared - ₹ 13.12 crore (ii) DC bills not submitted by DDO to AG (A&E) - ₹ 2.88 crore (iii) DC bills pending with DMs - ₹ 8.80 crore and (iv) DC bills pending with ULBs and BUIDCO - ₹ 12.63 crore.

On unadjusted AC bills, the Assistant Director-cum-Joint Secretary of the Department replied (July 2021) that, against the outstanding amount of ₹ 37.46 crore as on March 2021, an amount of ₹ 2.39 lakh had been adjusted and ₹ 37.43 crore remained outstanding for adjustment. He further added that in compliance to the directions received in the review meeting held (March 2021) by the Finance Department, reminders had been issued to the DMs and units concerned, for adjustment of DC bills against the corresponding AC bills.

AC bills pending for adjustment/recovery for such long periods of time, indicated weak internal control and a poor monitoring mechanism.

