



**PANCHAYATI RAJ
INSTITUTIONS**

CHAPTER-I
AN OVERVIEW OF
THE FUNCTIONING,
ACCOUNTABILITY
MECHANISM AND
FINANCIAL REPORTING
ISSUES OF PANCHAYATI RAJ
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AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY
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PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

The Seventy-Third Constitutional Amendment Act (73rd CAA), 1992, vested Panchayati Raj Institutions (PRIs) with constitutional status and established the following in their regard (i) a three-tier uniform structure (ii) system for elections (iii) reservation of seats for Scheduled Castes, Scheduled Tribes and Women (iv) system for devolution of funds to PRIs and (v) functions to be devolved to PRIs. As a follow-up, States were required to entrust PRIs with such powers, functions and responsibilities that would enable them to function as institutions of local self- government. PRIs aim to promote (a) participation of people and (b) effective implementation of rural development schemes for economic development and social justice, including those in relation to the 29¹ subject matters listed in the Eleventh Schedule of the Constitution of India.

Government of Bihar (GoB) enacted the Bihar Panchayat Raj Act (BPRA), 1993 (subsequently replaced by the BPRA, 2006, as amended from time to time) and established a system of three-tiers of PRIs, viz. Gram Panchayats (GPs) at the village level, Panchayat Samitis (PSs) at the Block level and Zila Parishads (ZPs) at the District level. For effective decentralization at the grassroots level, GPs were further divided into Wards and provisions of Gram Sabha² at the GP level and Ward Sabha³ at the Ward level were made.

As per Economic Survey, 2022-23, GoB, there were 8,629 PRIs⁴, having 2,47,426 posts of representatives⁵ in the State. Fifty *per cent* horizontal reservation of the total seats of the elected bodies of PRIs, was provided for women. The last general elections, to the elected bodies of PRIs in the State, were held during September-December 2021.

¹ *Agriculture, including agricultural extension; Land improvement, implementation of land reforms, land consolidation and soil conservation; Minor irrigation, water management and watershed development; Animal husbandry, dairying and poultry; Fisheries; Social Forestry and farm forestry; Minor forest produce; Small-scale industries, including food processing industries; Khadi, village and cottage industries; Rural housing; Drinking water; Fuel and fodder; Roads, culvers, bridges, ferries, waterways and other means of communication; Rural electrification, including distribution of electricity; Non-conventional energy sources; Poverty alleviation programme; Education, including primary and secondary schools; Technical training and vocational education; Adult and non-formal education; Libraries; Cultural activities; Markets and fairs; Health and sanitation, including hospitals, primary health centres and dispensaries; Family welfare; Women and child development; Social welfare, including welfare of the handicapped and mentally retarded; Welfare of weaker sections, and in particular, of the Scheduled Casts and the Scheduled Tribes; Public Distribution System; Maintenance of Community Assets*

² *Gram Sabha means a body consisting of persons registered in the electoral rolls, relating to a village comprised within the area of the Panchayat, at the village level.*

³ *All persons registered under the electoral roll of the Ward shall be members of the concerned Ward Sabha.*

⁴ *38 ZPs, 533 PSs and 8,058 GPs*

⁵ *Mukhiyas: 8,058; Gram Panchayat members: 1,09,528; Members of PSs: 11,094; Members of ZPs: 1,160; Panchs: 1,09,528 and Sarpanchs: 8,058*

1.1.1 State Profile

Bihar is the 12th largest State in the country, with an area of 94,163 sq. km. (2.86 per cent of the total geographical area). The population growth rate in Bihar, in the last decade (2001-2011), was 25.4 per cent. As per Census 2011, out of the total population of 10.41 crore in the State, the rural population was 8.77 crore (84 per cent). The demographic and development statistics of the State are given in **Table 1.1**.

Table 1.1
Important statistics of the State

Indicators	Unit	State Value
Population	Crore	10.41
Population Density	Per sq. km.	1,106
Rural Population	Crore	8.77
Gender Ratio	Females per thousand males	918
Literacy	Per cent	61.80
Number of districts	Number	38
Number of PRIs	Number	8,629
Decadal growth rate	Per cent	25.42
Rural Sex Ratio	Females per thousand males	921

(Source: Census 2011 and Economic Survey, 2022-23, GoB)

1.2 Organisational set-up of PRIs

At the State level, the Panchayati Raj Department (PRD) coordinates and monitors functioning of the PRIs. The ZP is headed by *Adhyaksha*, while the PS and the GP are headed by *Pramukh* and *Mukhiya*, respectively, who are elected representatives of the respective PRIs. The *Mukhiya* is responsible for the financial and executive administration of the GP.

The Chief Executive Officer (at the rank of District Magistrate or Additional District Magistrate) and the Block Development Officer-cum-Executive Officer (EO) are the executive heads of ZPs and PSs, respectively. Further, since June 2022, the District Panchayat Raj Officer is the Additional Chief Executive Officer of the ZP, while, in those Blocks where Block Panchayat Raj Officers are posted, they perform the roles and responsibilities of Executive Officer of the Panchayat Samiti. The Panchayat Secretary is in-charge of office of the GP and is also responsible for maintenance of the books of account and other records at the GP level.

1.3 Functioning of PRIs

1.3.1 Powers and Functions of PRIs

Articles 243G and 243H of the Constitution of India stipulate that the Legislature of a State may, by law, endow PRIs with the following powers, authority, and responsibilities, to enable them to function as institutions of self-government:

- preparation of plans and implementation of schemes for economic development and social justice, as may be entrusted to them, including those concerning the matters referred to in the Eleventh Schedule of the Constitution; and

- powers to impose taxes and constitute funds for crediting all moneys of the Panchayats.

Besides, Sections 22, 47, and 73 of the BPR, 2006, describe the nature of powers and duties to be performed by the GPs, PSs, and ZPs, respectively.

1.3.2 Powers of the State Government

The BPR, 2006, entrusts the State Government with the following significant powers, to enable it to monitor the proper functioning of the PRIs. A summary of powers and roles of the State Government, with regard to PRIs, is given in **Table 1.2**.

Table 1.2
Powers of the State Government

Authority	Powers of the State Government
Section 11	Subject to the general or special orders of the Government, the District Magistrate may, by notification in the District Gazette, declare any local area, comprising a village or a group of contiguous villages or part thereof, to be a Gram Panchayat area, with a population within its territory as nearly as seven thousand.
Section 146	Power to frame rules: The State Government may, by notification in Official Gazette, make rules to carry out functions, as specified in BPR, 2006, subject to approval of the State Legislature.
Section 150, 152 and 153	Power to make model Regulations, Inquiry, and Inspection: The State Government may make standard rules for the purposes of the BPR, 2006 and has the power to inspect any office or records under the control of the PRIs.
Section 167	District Planning Committee: The State Government shall constitute, in every district, a District Planning Committee, to consolidate plans prepared by the Panchayats and the Municipalities in the district and to prepare a Draft Development Plan for the district as a whole.
Section 168	Finance Commission for Panchayats: The State Government shall constitute, in every five years, a Finance Commission, to review the financial position of PRIs and to make recommendations for devolution of funds and measures to improve the financial position of PRIs.
Section 27, 55 and 82	Taxation: PRIs may impose taxes on holdings, professions, and levy tolls, fees, and rates, subject to the maximum rates notified by the State Government.
Section 172	Removal of difficulties: If any difficulty arises in giving effect to the provisions of the Act, the State Government, may, by order, do anything necessary to remove the difficulty.
Section 18(5), 44(4), and 70 (5)	Removal from the post: The State Government may remove the <i>Mukhiya/ Up-Mukhiya, Pramukh/ Up-Pramukh, and Adhyaksha/ Upadhyaksha</i> , from their posts, on the ground of absence from the meeting, lack in performing duties as per BPR, 2006, misusing their powers or being convicted and absconding for more than six months, after allowing them to represent themselves.

(Source: BPR, 2006)

1.3.3 Devolution of Functions, Funds, and Functionaries to PRIs

The 73rd CAA envisages that all the 29 functions, listed in the Eleventh Schedule of the Constitution, along with funds and functionaries, would be eventually transferred to the PRIs, through suitable legislation of the State Government.

(i) Devolution of Functions

Departments/wings⁶ of GoB transferred (September 2001) their respective functions to PRIs, in terms of the subjects/functions listed in the Eleventh Schedule of the Constitution and prepared a tier-wise activity mapping of these functions/sub-functions. PRIs were entrusted with 621 types of responsibilities, by various departments of the State Government, from time to time. Chief Secretary, Bihar, however, observed that the notifications issued by the Departments, in regard to the devolution of functions and responsibilities to be performed by the three tiers of PRIs, were not clear and practical for adoption by the PRIs and directed (July 2014 and April 2019) the Departments concerned to frame clear operational guidelines for effective devolution of powers to PRIs. However, no progress was observed in this respect as of May 2022. Further, it was observed that functional Departments concerned had continued to receive budgetary allocations for carrying out the functions which had been devolved to PRIs. Thus, the functions devolved to PRIs overlapped with the functions being performed by the related Departments of the State Government. The Sixth State Finance Commission (SFC) also observed that (i) only a few functions were being performed by PRIs and (ii) activity mapping of most functions remained on paper and had not been acted upon. As such, the concerned Departments of the State Government had not transferred operational control, in regard to most of the devolved functions, to PRIs.

(ii) Devolution of Funds

The basic objective of the 73rd CAA was to empower Local Bodies (LBs), through functional and financial devolution, to enable them to function as vibrant units of self-government. Accordingly, PRIs were receiving funds in the form of grants/devolution from the Central/ State Government, State Plan heads *etc.*, through PRD, to carry out developmental works in rural areas. Funds released to PRIs, during the financial years 2017-18 to 2021-22, are as given in **Table 1.3**.

Table 1.3
Grants to PRIs at different Levels (FY 2017-18 to FY 2021-22)

(₹ in crore)

Head	GP	PS	ZP
Rajiv Gandhi Panchayat Sashaktikaran Aabhiyan	138.00	0	0
Central Finance Commission Grants	19,616.8	1,595.6	1,076.6
State Finance Commission Grants	7,054.1	1,033.1	574.2
Construction of Panchayat Sarkar Bhawan	555.7	-	-
Contingency Grants	95.0	-	-
Payment and allowance to elected members/ functionaries	608.2	121.2	23.9
Total	28,067.80	2,749.9	1,674.70

(Source: Economic Survey for the financial year 2022-23, GoB)

⁶ *Agriculture; Revenue and Land Development; Water Resources (Minor Irrigation); Animal Husbandry and Fisheries; Environment and Forest; Industry; Public Health Engineering Department; Rural Development; Rural Engineering; Energy; Primary Education; Adult Education; Literacy; Cultural Activities; Medical; Family Welfare; Social Welfare; Welfare of the Handicapped; Public Distribution System; Relief and Rehabilitation.*

Further, as per Sections 27, 55, and 82 of BPR, 2006, PRIs were authorised to impose taxes on holdings, professions and levy tolls, fees, and rates, subject to the maximum rates specified by the State Government. The SFCs had also recommended that the State Government was to specify the maximum rates of taxes, to enable PRIs to raise resources on a priority basis. However, GoB did not specify the rates at which the tax/ non-tax revenues were to be collected. In the absence of these rates, PRIs had not been able to levy and collect revenues from their own resources (as of August 2021).

On this being pointed out, the Department stated (August 2021) that framing of the Bihar Panchayat (Gram Panchayat, Account, Audit, Budget and Taxation) Rules was under process. Audit, however, observed in this regard, that framing of the aforesaid Rules had been in process for more than 10 years. Updated status was not furnished by the Department (April 2023).

(iii) Devolution of Functionaries

At the GP level, the Panchayat Secretary was the only full-time government employee, available to facilitate GPs in performing their mandated functions. It was, however, noted that (i) 6,055 posts (71.92 per cent of the sanctioned strength of 8,419) of Panchayat Secretaries were vacant, as of August 2021 (ii) Block Panchayat Raj Officers (BPROs) had been appointed, in Blocks, to work as Executive Officers of the Panchayat Samities and (iii) the staff of the Blocks were also performing functions relating to the PSs. As of June 2022, 308 BPROs were working in 534 Blocks of the State. The status of sanctioned strength and persons-in-position of ZPs was not available at the Department level.

Thus, PRIs had not been provided with adequate staff and were constrained to function with deficient manpower. The 6th SFC had observed that, although Departments had issued activity mapping orders regarding devolution of functions, they had not transferred the services of functionaries handling these activities (except for limited administrative control over *Aganwadi* workers, health workers, and teachers), to PRIs.

Thus, the devolution of functions, funds, and functionaries to PRIs, as envisaged in the 73rd CAA, was not satisfactory.

1.4 Formation of various Committees

BPR, 2006, provides that PRIs shall constitute various Committees, by election among their members, for effective discharge of their functions.

1.4.1 Standing Committees

As per Sections 25, 50, and 77 of BPR, 2006, PRIs are required to constitute various Standing Committees, for performing assigned functions. The Standing Committees, to be constituted at three-tier PRIs and the functions of these Committees, are given in **Table 1.4**.

Table 1.4
Standing Committees in PRIs

Committees	GP	PS	ZP	Functions
General Standing Committee	No	Yes	Yes	General functions, co-ordination of the works of other Committees and all residuary functions not under the charge of other Committees.
Planning, Co-ordination & Finance Committee	Yes	No	No	General functions relating to GPs, co-ordination of the works of other Committees and all residuary functions not under the charge of other Committees.
Finance, Audit & Planning Committee	No	Yes	Yes	Functions relating to finance, audit, and budget & planning.
Production Committee	Yes	Yes	Yes	Functions relating to agriculture; land improvement; minor irrigation & water management; animal husbandry; dairy, poultry & fisheries; forestry-related areas; <i>khadi</i> , village & cottage industries; and poverty alleviation programmes.
Social Justice Committee	Yes	Yes	Yes	Functions relating to educational, social, cultural and economic promotion and protection of SCs, STs and weaker sections, from social injustice and all forms of exploitation besides welfare of children & women
Education Committee	Yes	Yes	Yes	Functions relating to education, including primary, secondary and mass education, libraries and cultural activities
Committee on Public Health, Family Welfare & Rural Sanitation	Yes	Yes	Yes	Functions relating to public health, family welfare and rural sanitation.
Public Works Committee	Yes	Yes	Yes	Functions relating to all kinds of construction and maintenance, including rural housing, sources of water supply, roads & other means of communication, rural electrification and related works.

(Source: Sections 25, 50 and 77 of BPRA, 2006)

The Department had no information about how many PRIs had constituted the above mentioned Standing Committees and how many Committees were actually functional.

1.5 Audit Arrangements

1.5.1 Primary Auditor

The Eleventh Finance Commission (FC) had recommended that the Comptroller and Auditor General of India (CAG) should be entrusted with the responsibility of exercising control and supervision over proper maintenance of accounts and audit, for all tiers/levels of Panchayats. The 13th and 14th FCs had also recommended that CAG must be entrusted with the function of Technical Guidance and Support (TGS) over the audit of all 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), must be placed before the State Legislature.

Accordingly, the terms and conditions for audit of the accounts of LBs, under the TGS arrangement, as laid in the Regulations on Audit and Accounts, 2007, were accepted by GoB, in December 2015. Subsequently, audit of the accounts of LBs under TGS, by the CAG, commenced from January 2017. And, the Directorate of Local Fund Audit (under the Finance Department, GoB) started performing the role of the primary external auditor for audit of the LBs, from January 2017.

1.6 Response to Audit Observations

1.6.1 Response to AG's Inspection Reports on LBs

After completion of audit by the office of AG (Audit), IRs, containing audit findings, were issued to the PRIs concerned, with a copy to the Department concerned. The Deputy Development Commissioner-cum-Chief Executive Officers of the ZPs, the EOs of PSs and the *Mukhiyas* of GPs, were required to respond to the audit observations contained in the IRs and send compliance reports within three months. However, the status of compliance of audit paragraphs was not satisfactory, as evident from the increasing number of outstanding paragraphs. Details of paragraphs outstanding for compliance, for the last five financial years (2017-18 to 2021-22), are given in **Table 1.5**.

Table 1.5
Audit paragraphs outstanding for the last five financial years
(2017-18 to 2021-22)

Year	No. of IRs	No. of Paragraph in IRs	Amount involved (₹ in crore)	No. of paragraphs settled	Amount of settlement (₹ in crore)	No. of paragraphs outstanding	The money value of paragraphs outstanding (₹ in crore)
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2017-18	1,365	8,476	1,173.853	23	1.301	8,453	1,172.552
2018-19	156	1,069	72.88	0	0	1,069	72.88
2019-20	113	874	222.57	26	22.293	848	200.277
2020-21	14	212	158.13	0	0	212	158.13
2021-22	99	996	3.50	0*	0	996	3.50
Total	1,747	11,627	1,634.933	49	23.594	11,578	1,607.339

(Source: Inspection Reports)

*847 paras were settled in the year 2021-22 which were related to the years prior to 2021-22

On this being pointed out, the Internal Financial Advisor, PRD, replied (May 2023) that letters were written from time to time (May 2019, August 2019, February 2020 and February 2021), to the District Magistrates, for compliance of the paragraphs and taking action against the erring officials to ensure settlement of the outstanding audit paragraphs.

The large number of audit paragraphs remaining outstanding for settlement was indicative of inaction by the PRIs and the Department.

1.6.2 Compliance/status of Annual Audit Reports

Prior to January 2017, audit of Local Bodies in Bihar was conducted by the Examiner of Local Accounts (ELA) under overall control of the Accountant General (Audit). An Annual Report by consolidating the audit findings contained in the Inspection Reports had been prepared for the period 2005-06 to 2013-14 and the report was titled as ELA's Report on Local Bodies.

Subsequently, Audit Report on Local Bodies, countersigned by the CAG, was prepared for the period 2014-15 and 2015-16.

Further, Audit of the accounts of Local Bodies under TGS arrangement was commenced under TGS arrangement from January 2017. Consequently, the role of primary auditor was shifted from the CAG to the DLFA, a wing functioning under the Finance Department, (GoB). Thereafter, Annual Technical Inspection Report (ATIR) for the period 2017-19 was prepared and submitted to the Governor of the State for placement of the same before State Legislature. Annual Technical Inspection Reports (ATIRs) for the period 2019-20 and 2020-21 were prepared and placed before the State Legislature (July 2023).

(i) ELA's Annual Report

Finance Department, GoB, had constituted (March 2010) three-tier Committees – High Level, Departmental Level, and District Level - for review/ compliance of the audit paragraphs contained in the ELA's Annual Audit Reports. The District Level Committee⁷ had the responsibility of ensuring compliance of audit paragraphs/ reports received from the PRIs and ULBs of that district. The Department Level Committee⁸ was expected to review the compliance of audit paragraphs/reports prepared by the District Level Committees. The High-Level Committee⁹ was required to meet once in six months, to review the functioning of the District and Department Level Committees.

The Monitoring Officer, PRD, replied (March 2022) that (i) meetings of the District Level Committee were held in two districts, in the year 2020 and in six districts, in the year 2021 (ii) the Department Level Committee meetings would be held after receiving the proceedings of the meetings of District Level Committees from all the Districts.

Audit observed that no Departmental Level Committee meetings had been held since July 2015 and no High-Level Committee meetings had been held since August 2013.

Thus, the purpose of constituting three-tier committees was not fulfilled. The ELA's Annual Audit Reports on LBs, for the years ended March 2013 and March 2014, were placed before State Legislature in March 2016.

Thus, the purpose of constituting three-tier Committees was not fulfilled and the audit observations contained in the ELA's Reports were not discussed.

(ii) CAG's Audit Report

Sections 31(4), 59(4), and 86(4) of the BPR (Amendment) Act, 2011, stipulate that the Annual Report of the CAG of India or an authority authorised by him, shall be laid before both Houses of the State Legislature.

The first CAG Report on LBs in Bihar, for the financial year 2014-15, was laid before the State Legislature on 04 April 2016. Three paragraphs of the report, related to PRD, were discussed in the PAC. Though the paras were discussed, recommendation of the PAC has not been received till date (March 2022). Further, the CAG Report on LBs in Bihar, for the financial year 2015-16, was laid before the State Legislature on 23 August 2017.

⁷ Headed by the District Magistrate/Deputy Development Commissioner

⁸ Headed by the Principal Secretary/Secretary of the Panchayati Raj Department, GoB

⁹ Headed by the Principal Secretary to the Finance Department, GoB, and the Pr. A.G. (Audit), Bihar, as a member

1.7 Accountability Mechanism

1.7.1 Lok Prahari (Ombudsman)

As per Section 152(5) of BPR 2006, a *Lok Prahari* (Ombudsman) was to be appointed by the State Government for the Panchayats and the GoB had to frame the service conditions, duties, and powers *etc.*, for the *Lok Prahari*.

However, the Draft Bihar Local Government Ombudsman Rules, 2014, for appointment of the *Lok Prahari* (Ombudsman) for the Panchayats, had not been finalized (as of March 2022).

1.7.2 Social Audit

Rule 2(A) of the Bihar Gram Sabha (Co-ordination of meeting & Procedure for conduct) Rules, 2012, provides for Social Audit of all the development work executed in the village by the Gram Sabha. Further, Para 2.1.7 of the 5th SFC recommends that accountability through Social Audits should be pursued, to make the PRIs institutions of ‘smart’ self-governments.

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

GoB had created (June 2015) various posts, on contractual basis, for functioning of the Social Audit Society (SAS) and constituted the SAS in April 2017. The SAS was assigned social audit of MGNREGS in PRIs and various other schemes, such as the *Pradhan Mantri Aawaas Yojana*, *Lohiya Swachh Bihar Abhiyan*, Public Distribution System, *Nir Nirmal* Project, and National Social Assistance Programme (implemented by Blocks and Districts). However, apart from the audit of MGNREGS, no Social Audits had been conducted for the Schemes implemented by the PRD, GoB (as of March 2022). The PRD, GoB did not approach Social Audit Society effectively to conduct the audit of other schemes. Reasons for the same were not pointed out by the Department.

1.7.3 Submission of Utilisation Certificates

As per GoB instructions, read with provisions contained in Rule 342 of the Bihar Financial Rules (BFR), the time limit for submission of Utilisation Certificates (UCs), for grants sanctioned for specific purposes, is 18 months from the date of allotment of the grants.

Audit observed that PRD had released grants amounting to ₹ 59,995.90 crore, under different scheme heads, to PRIs, during the financial years 2003-04 to 2021-22, but PRIs had submitted UCs for an amount of ₹ 34,129.49 crore (56.89 *per cent*) only (as of March 2023), as depicted in **Table 1.6**.

Table 1.6
Submission of UCs by PRIs for funds allotted till FY 2021-22

(₹ in crore)

Financial Year	UCs due	UCs submitted	UCs outstanding
2003-04 to 2021-22	59,995.90	34,129.49	25,866.41

(Source: Office of the A.G. (A&E), Bihar, Patna)

1.7.4 Internal Audit and Internal Control System of PRIs

As per the recommendation of the 5th SFC for sustainable improvements, qualified Accountants were to be appointed regularly, apart from contracting CAs as internal Auditors, as an interim measure. Further, the Finance Department, GoB, in the light of 14th FC recommendations, made it mandatory (February 2016) for LBs to submit the expenditure accounts and internal audit report, along with UCs of the previous year's grants, for release of the 2nd and subsequent instalments. This necessitated the setting up of an internal audit mechanism in the Department.

As per the PRD instructions (May 2020), District Level Committees, under the Chairmanship of the concerned District Magistrates, were authorised for the selection of CA firms eligible for the audit of the accounts of the PRIs and *Gram Kachahari*.

The status of audit of PRIs and *Gram Kachahari*, conducted by CA firms, during FY 2019-20 to FY 2021-22, is given in **Table 1.7**.

Table 1.7
Status of Internal Audit by Chartered Accountants*

Financial Year	Total no. of GPs	No. of GPs audited	Total no. of Gram Kachaharies	No. of Gram Kachaharies audited	Total no. of PSs	No. of PSs audited	Total no. of ZPs	No. of ZPs audited
2019-20	8,387	8,207	8,387	7,594	534	502	38	32
2020-21	8,387	7,924	8,387	7,063	534	485	38	28
2021-22	8,058	3,709	8,057	2,627	533	232	38	14

(Source: Panchayati Raj Department and Economic Survey, 2022-23, GoB)

*Data provided by the Department in May 2023

The 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). It was replied (November 2022) by the Department that due to Covid-19, coverage of audit by CAs was low.

The Monitoring Officer of PRD stated (March 2022) that directions had been issued (November 2021) to take stern action in cases of non-cooperation in audit work or negligence in performance of duties and intimate the same to the Department.

Further, a State Level Audit and Financial Management Consultant was to be appointed for (i) reviewing the work of the CAs (ii) supervision (iii) compilation of reports received from the district, at the State level (iv) compliance of objections and (v) other audit-related work, at the Department level. However, the Department had not appointed any Consultant for this work (as of May 2023). Accordingly, review of the work of the CA, supervision, compilation of reports received from the district at the State level, compliance of objections and other audit-related work, could not be ensured.

1.7.5 Construction of District Panchayat Resource Centres

Under the *Rashtriya Gram Swaraj Abhiyan* (RGSA) of Government of India, funds were provided to construct District Panchayat Resource Centres (DPRCs) for strengthening institutions for capacity enhancement of PRIs at various levels, in order to enable them to achieve adequate quality standards in infrastructure, facilities, human resources, and outcome-based training. Under this Scheme, the existing DPRCs were to be strengthened or new centres were to be established. These centres were expected to be focal points for the conduct and coordination of training, research and analysis, documentation, communication and were expected to develop training networks with academic and research institutions.

PRD, in the light of 5th SFC recommendations, released ₹ 194.05 crore to ZPs of the State, for construction of DPRCs during September 2018 and February 2019. The estimated cost for the DPRCs, was ₹ 5.1479 crore per unit for 24 districts and ₹ four crore per unit, for the remaining 14 districts. Thus, the total estimated cost, for all DPRCs of the State, was ₹ 179.55 crore. The ZPs were to execute the construction of the DPRCs, through an e-tender process. Three floors (ground floor, 1st floor and 2nd floor) were to be constructed. However, as of April 2023, construction of DPRCs in five districts had been completed; in 17 districts, construction work had not been commenced; in four districts, construction of the first and second floors had been completed; and, in the remaining 12 districts, construction work was at the beginning stages.

1.7.6 Construction of Panchayat Sarkar Bhawan

GoB had decided to construct a *Panchayat Sarkar Bhawan* (PSB) in every Panchayat of the State, with the objective that each PSB would function as the office of the concerned GP, for discharging assigned functions, such as issue of certificates, permits and licenses, as well as for use as a central point for functions like holding of *Gram Sabhas*, providing information *etc.*

During FYs 2012-13 to 2018-19, GoB had sanctioned construction of 3,200 PSBs to be executed by three different implementing agencies¹⁰. Thereafter, 244 PSBs were sanctioned for construction. However, it is planned by the GoB to construct 8,058 PSBs in the State. Against the sanctioned target of 3,444 PSBs, only 1,488 PSBs were constructed and out of that 1,399 were made functional till 23 November 2022.

1.8 Financial Reporting Issues

1.8.1 Sources of Funds

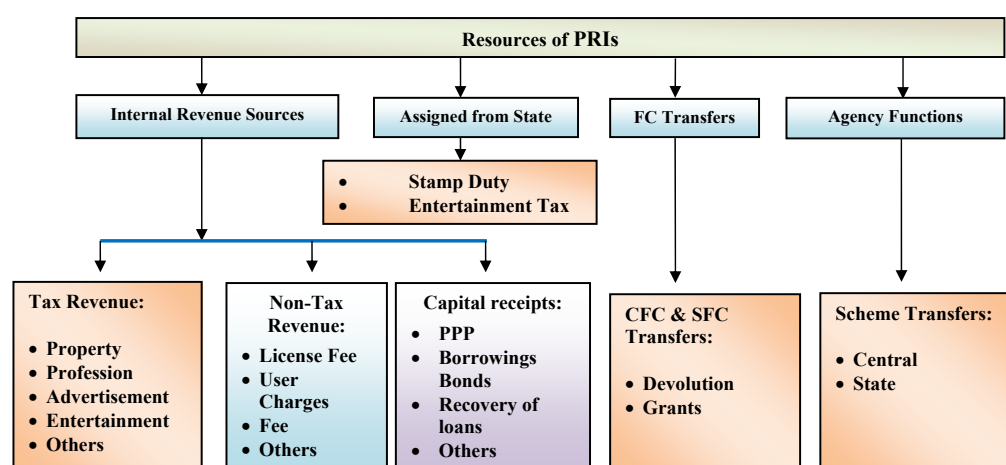
The resource base of PRIs comprises (i) their 'own revenue', generated by way of collection of tax and non-tax revenues (ii) devolution of funds, in terms of the recommendations of the State and Central Finance Commissions

¹⁰ Bihar Gram Swaraj Yojana Society (BGSYS), a society under PRD, Local Area Engineering Organisation (LAEO) and GPs were the implementing agencies for construction of PSBs. The PSBs were being constructed by aforesaid three different agencies. BGSYS had undertaken the construction of PSBs from the funds received from the World Bank while LAEO was engaged by the PRD for construction of PSBs by the PRD and GPs were also executing the construction work.

(iii) Central and State Government grants for maintenance and other development purposes, including grants for provision of basic services and (iv) other receipts.

As per Sections 27, 55, and 82 of BPR, 2006, PRIs were authorised to impose taxes on holdings, professions and levy tolls, fees, and rates, subject to a maximum rate, as notified by the State Government. A flow chart of the sources of finances of PRIs, is depicted in **Chart 1.1**.

Chart 1.1: - Sources of Finances



(Source: Provisions in the BPR, 2006 and the 5th State Finance Commission Report)

Out of the three-levels of PRIs, only the ZPs had their own sources of non-tax revenue, viz. rent of shops/Inspection Bungalows, leasing of ponds/bus-stand, etc., while PRIs did not levy taxes and fees, as the State Government had not yet (March 2022) notified the maximum rates of taxes, tolls, and fees etc.

1.8.1.1 State Budget allocation vis-à-vis expenditure

The budget provisions of the State Government for PRD, including the State share towards GoI schemes and grants received under recommendations by the Central Finance Commissions (CFCs), for the financial years 2017-18 to 2021-22, is given in **Table 1.8**.

Table 1.8
Budget allocation vis-à-vis expenditure

(₹ in crore)

Particulars	Head	2017-18	2018-19	2019-20	2020-21	2021-22	Total
1	2	3	4	5	6	7	8 (3 to 7)
1. Budgetary Allocation	Revenue	9,148.71	10,245.17	13,376.35	12,597.84	13,224.87	58,592.94
	Capital	0.01	1.00	250	480.00	321.00	1,052.01
	Total	9,148.72	10,246.17	13,626.35	13,077.84	13,545.87	59,644.95
2. Expenditure	Revenue	8,540.95	8,408.50	8,689.62	8,236.01	8,057.27	41,932.35
	Capital	0.00	0.00	45.12	166.40	121.58	333.10
	Total	8,540.95	8,408.50	8,734.74	8,402.41	8,178.85	42,265.45
3. Savings (1-2)		607.77	1,837.67	4,891.61	4,675.43	5,367.02	17,379.50
4. Percentage of savings		7	18	36	36	40	29

(Source: Appropriation Accounts, GoB, for the financial years 2017-18 to 2021-22)

It is evident from **Table 1.8** that PRD could not fully utilise its budgetary allocation and the percentage of savings ranged between seven *per cent* and 40 *per cent* during the years 2017-22. Further, the total expenditure under the Capital head was only 32 *per cent* of the total allocation under the head. Further, non/low utilisation of funds allocated under ‘Capital head’ resulted in non-creation of assets like Panchayat Sarkar Bhawan, Resource Centres *etc.* which were to be used as GP office and resource centres. This adversely affected the PRIs in discharging the devolved functions like issue of certificates, permits and licenses, as well as for use as a central point for functions like holding of *Gram Sabhas*, providing information to public, delivering of various types of service, imparting training to large number of public representatives, officials *etc.*

1.8.2 Recommendations of the State Finance Commission

In terms of Article 243-I of the Constitution of India and as per the provisions contained in Section 168 of the BPR, 2006, GoB had constituted State Finance Commissions¹¹, from time to time, with the mandate of assessing the financial status of LBs in the State and to determine the principles based on which adequate financial resources would be ensured to these LBs. The 6th SFC first submitted an interim report in January 2020, covering the financial year 2020-21 and then submitted its final report, for the period covered by the financial years 2021-22 to 2024-25, in April 2021.

The 6th SFC recommended that, during the financial years 2021-22 to 2024-25, ₹ 29,876 crore¹² may be devolved to LBs, with the share of PRIs being ₹ 19,419 crore and the financial year-wise allocation being as given in **Table 1.9**.

Table 1.9
Grants and devolution recommended for release to PRIs

(₹ in crore)

Particulars	Projected				
	2021-22	2022-23	2023-24	2024-25	2021-25
Total SFC transfer to LBs	6,008	7,014	7,883	8,971	29,876
Transfer to PRIs	3,905	4,559	5,124	5,831	19,419

(Source: Report of 6th SFC)

The State Government had decided (August 2021) to implement the important recommendations of 6th SFC, for the period covered by the financial years 2021-22 to 2024-25, in the following manner:

- The amounts of devolution would be 10 *per cent* of the State’s Own Tax Revenue (SOTR).
- The amounts of grants would be 2.5 *per cent* of the actual expenditure of the State for previous financial year. Out of the total amounts of grants, 50 *per cent* would be released directly to LBs and the remaining 50 *per cent* would be released to the functional Departments of the State Government, with the aim of executing schemes for development of LBs.

¹¹ First SFC: April 1994, Second SFC: June 1999, Third SFC: July 2004, Fourth SFC: June 2007, Fifth SFC: December 2013 and Sixth SFC: February 2019

¹² Devolution: ₹ 11,713 crore and Grants: ₹ 18,163 crore

- Funds under devolution and grants would be allocated to PRIs and ULBs in the ratio of 65:35, respectively.
- The *inter se* distribution of funds, among ZPs, PSs and GPs, would in the ratio of 15:15:70, respectively.
- The grants and devolution would be transferred to PRIs under the following three heads (i) Development Fund (30 per cent) (ii) Maintenance Fund (20 per cent) and (iii) General Fund (50 per cent).
- The horizontal distribution of funds, under the 6th SFC, to LBs, would be based on population and area, in the weightage of 90 per cent and 10 per cent, respectively.

1.8.3 Recommendations of the 15th Finance Commission

Articles 280(3)(bb) and 280(3)(c) of the Constitution of India mandate the Finance Commission (FC) to recommend measures to augment the Consolidated Fund of a State, to supplement the resources of Panchayats and Municipalities.

The President of India had constituted (27 November 2017) the 15th FC, under Article 280 of the Constitution, to make recommendations for a period of five years, commencing 01 April 2020. The Commission submitted its report in two parts (i) an interim report, covering the financial year 2020-21, in November 2019 and (ii) the main report, covering the financial years 2021-22 to 2025-26, in October 2020. Vide its interim report, the Commission recommended that 50 per cent of the grants to rural local bodies may be untied, while the remaining 50 per cent (*i.e.* grants for sanitation and water supply) may be tied.

For rural local bodies, no conditions were prescribed for release of grants in FY 2020-21. However, from FY 2021-22 onwards, the entry level condition, for rural local bodies receiving these grants, would be the timely submission of audited accounts. Details of the grants received from GoI and released to PRIs during FY 2021-22 (up to 11 March 2022), are given in **Table 1.10**.

Table 1.10
Details of grants received from GoI and released to units

(₹ in crore)

Financial Year	Receipt from GoI				Grant released to units			
	Tied Grant		Untied Grant		Tied Grant		Untied Grant	
	Date	Amount	Date	Amount	Date	Amount	Date	Amount
2021-22	27/8/21	1,112.70	10/5/21	741.80	6/9/21	1,112.70	18/5/21	741.80
	11/3/22	1,112.70	23/12/21	741.80	15/3/22	1,112.70	28/12/21	741.80
Total		2,225.40		1,483.60		2,225.40		1,483.60

(Source: Information furnished by PRD, GoB)

1.8.4 Maintenance of Accounts by PRIs

1.8.4.1 Maintenance of Accounts by PRIs/Model Accounting System

GoI, in consultation with the CAG, prescribed (2009) the Model Accounting System (MAS) for the maintenance of accounts of PRIs. Consequently, PRD notified (July 2010) that the account of PRIs would be maintained in the MAS format, from April 2010 onwards. The MAS contained eight formats and data was to be entered in PRIASoft (an accounting software developed by MoPR).

The Department decided (August 2018) to implement e-Panchayat in PRIs¹³, based on the Panchayat Enterprises Suite (PES) application, containing 10 application softwares for different purposes, developed by MoPR, with PRIASoft being one of these Applications. E-Panchayat was, however, not implemented and MoPR launched eGramSwaraj (April 2020), in which e-Panchayat was merged. eGramSwaraj is a single platform, which intends to incorporate the entire gamut of the planning and accounting needs of Panchayats. However, in Bihar, online accounting was implemented in regard to only the 15th FC grants.

1.8.5 Issues related to AC/DC Bills

Rule 177 of the Bihar Treasury Code (BTC), 2011, provides that the Drawing and Disbursing Officer is to furnish a certificate to the effect that (i) money withdrawn on the contingent bills would be spent within the same financial year and (ii) the unspent amount would be remitted to the Treasury, before 31 March of the year. Further, as per Rule 194 of the BTC, 2011 (i) countersigned Detailed Contingent (DC) bills are to be submitted to the AG (A&E), within six months following the month in which the related Abstract Contingent (AC) bills were drawn and (ii) no AC bills are to be encashed after the end of this period of six months, unless the corresponding DC bills have been submitted.

As of July 2022, DC bills, of ₹ 97.18 crore¹⁴, withdrawn through AC bills, during the financial years 2002-03 to 2021-22 (up to 30 September 2021), were pending for adjustment.

Thus, PRD failed to ensure utilisation of entire amounts drawn through AC bills, as well as timely submission of DC bills.

Non-submission of DC bills within the prescribed period breaches financial discipline. Further, non-adjustment of advances, for long periods, is fraught with the risk of misappropriation of public money.

1.8.6 Impact of Audit

Amount of ₹ 8.48 crore were suggested for recovery in the financial year 2021-22 during the audit of 13 units of PRIs in which ₹ 6.30 crore were pertaining to only three units viz. ZP, Siwan (₹ 176.23 lakh), ZP, Begusarai (₹ 290.92 lakh) and ZP, Bhagalpur (₹ 162.44 lakh). However, no amount has been recovered so far.

¹³ *The MoPR has undertaken e-Panchayat Mission Mode Project (MMP) with a view to introduce and strengthen e-Governance in Panchayati Raj Institutions (PRIs) across the country and build associated capacities of the PRIs for effective adoption of the e-Governance initiative. Under this project, Panchayat Enterprise Suite (PES) has been conceptualised which comprises 11 Core Common applications.*

¹⁴ *Total amount drawn by the PRIs through AC Bills is ₹ 1,292.19 crore and against them State Government submitted DC Bills of ₹ 1,195.01 crore to the AG (A&E) for adjustment. DC bills against the balance of AC Bills amounting to ₹ 97.18 crore were pending for adjustment.*

