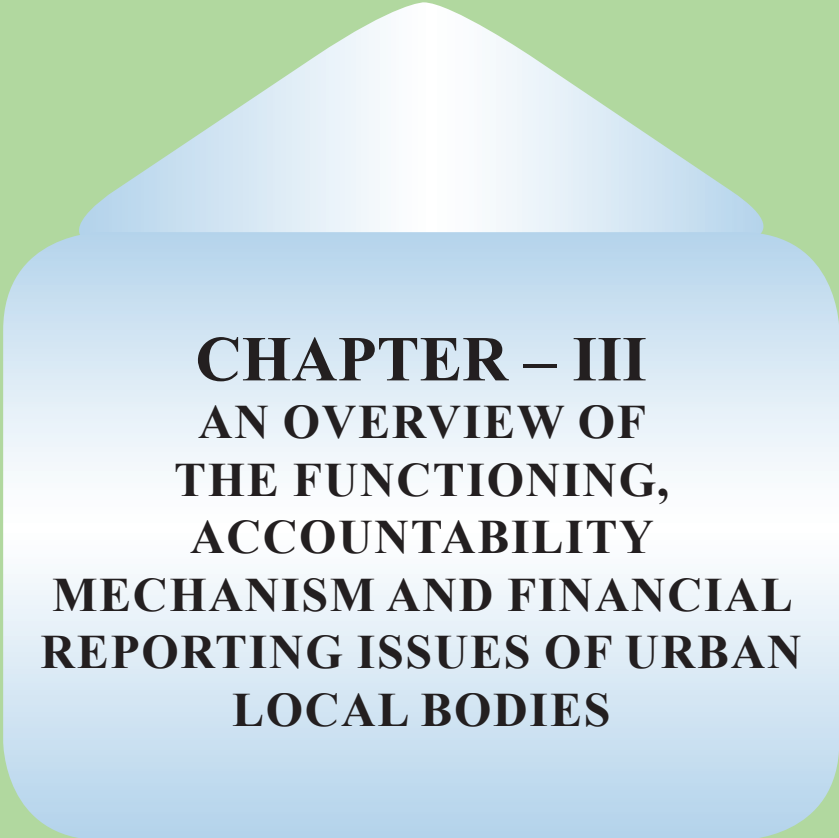




**URBAN LOCAL BODIES**





**CHAPTER – III  
AN OVERVIEW OF  
THE FUNCTIONING,  
ACCOUNTABILITY  
MECHANISM AND FINANCIAL  
REPORTING ISSUES OF URBAN  
LOCAL BODIES**



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**AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY**  
**MECHANISM AND FINANCIAL REPORTING ISSUES OF URBAN**  
**LOCAL BODIES**

**3.1 Introduction**

The Seventy-Fourth Constitutional Amendment Act (74<sup>th</sup> CAA), 1992, had envisaged creation of local self-government for the population of urban areas. Accordingly, Municipalities were provided constitutional status for governance. As a follow up, the States were required to entrust Municipalities with powers, functions and responsibilities, in order to enable them to function as institutions of local self-government and carry out the responsibilities conferred upon them, including the 18 subjects<sup>23</sup> listed in the Twelfth Schedule of the Constitution of India.

GoB enacted the Bihar Municipal Act (BMA), 2007 (subsequently amended from time to time), wherein Municipalities were devolved functions and responsibilities and the powers to carry out these functions. Further, 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 by the Municipalities of the State.

**3.1.1 State Profile**

Bihar is among the least urbanised states in the country. As per Census 2011, the urban population of Bihar was 1.18 crore. However, as per economic survey 2022-23, GoB, the projected urban population in Bihar in 2022 was 2.02 crore due to having additional urban population in the light of amendment (2020). Urban population in Bihar is about 4.2 *per cent* of the total urban population of India in 2022. But, there exists considerable economic disparity among the districts of Bihar in addition to wide variation in terms of the level of urbanisation as reflected in the range which varies from 44.3 *per cent* (Patna) to 3.6 *per cent* (Madhubani). Further, 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 3.1**.

<sup>23</sup> (i) Urban planning including town planning (ii) Regulation of land-use and construction of buildings (iii) Planning for economic and social development (iv) Roads and bridges (v) Water supply for domestic, industrial and commercial purposes (vi) Public health, sanitation conservancy and solid waste management (vii) Fire services (viii) Urban forestry, protection of the environment and promotion of ecological aspects (ix) Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded (x) Slum improvement and upgradation (xi) Urban poverty alleviation (xii) Provision of urban amenities and facilities such as parks, gardens, playgrounds (xiii) Promotion of cultural, educational and aesthetic aspects (xiv) Burials and burial grounds; cremations, cremation grounds; and electric crematoriums (xv) Cattle pounds; prevention of cruelty to animals (xvi) Vital statistics including registration of births and deaths (xvii) Public amenities including street lighting, parking lots, bus stops and public conveniences (xviii) Regulation of slaughter houses and tanneries.

**Table 3.1**  
**Important statistics of the State**

Sl. No.	Indicators	Unit	State	All over India
1.	Urban Population	Million	11.76	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 districts	Number	38	765

(Source: Census 2011 and the Local Government Directory published by the Ministry of Electronics & Information Technology, GoI)

### 3.2 Organisational setup of ULBs

Organisational set-up of ULBs has been detailed in **Paragraph 5.1.1.**

### 3.3 Functioning of ULBs

#### 3.3.1 Powers of the State Government

BMA 2007, provides the State Government with certain powers, to monitor the functioning of the ULBs. Some powers were devolved to ULBs for delivery of services, as stipulated in the BMA 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 3.2.**

**Table 3.2**  
**Powers of the State Government**

Authority	Powers of the State Government
Sections 3 and 6	<b>Constitution of Municipal Area:</b> 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 the Act.
Section 44	<b>State Municipal Vigilance Authority:</b> The State Government shall appoint a <i>Lok Prahari</i> to inquire into any allegation of corruption, misconduct, lack of integrity or any kind of malpractice or mal-administration or misdemeanour of Chief/Deputy Chief Councillor/ officers and other employees of the municipality.
Sections 65 and 66	<b>Power to inspect office, call for records etc.:</b> The State Government may depute an officer to inspect any office or call for the records under the control of the ULBs.
Section 87	<b>Preparation of Manual:</b> The State Government shall prepare 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	<b>Power to make Rules:</b> The State Government may, by notification, make rules to carry out the purpose of BMA, 2007 subject to approval by the State Legislature.
Sections 421 and 423	<b>Power to make regulations:</b> The Municipality may make regulations for the purpose of giving effect to the provisions of BMA 2007, subject to approval of the State Government.
Section 487	<b>Removal of difficulties:</b> If any difficulty arises in giving effect to the provisions of BMA 2007, the State Government may do anything necessary to remove such difficulty.

(Source: BMA, 2007)

### 3.3.2 Devolution of functions, funds and functionaries

#### (i) Devolution of Functions

The 74<sup>th</sup> CAA, 1992 enables ULBs to perform functions relating to 18 subjects referred to in the Twelfth Schedule of the Constitution. Accordingly, GoB made provisions in the BMA, 2007, for functions relating to 17 out of 18 subjects (*i.e.* except for fire services) which were to be carried out by the ULBs. However, it was observed that only 13 out of 17 functions were being performed by ULBs, while the remaining four functions/ activities were still being performed by the concerned Departments, even after a lapse of more than 28 years of the 74<sup>th</sup> CAA having come into force.

Moreover, during FY 2021-22, it was observed that works related to tap water connection in urban areas of the State under *Mukhyamantri Shahri Payjal Nishchay Yojana*, was entrusted to ULBs, BUIDCO and PHED simultaneously. This shows that the overlapping of functions still persists.

With regard to devolution of functions, the Department stated (November 2021) that (i) these four functions /activities would be implemented after recruitment of the requisite manpower (ii) the necessary recruitment is under process. Audit was not updated about the further development (April 2023).

#### (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 Governments had provided funds under different heads, such as the Central Finance Commission (CFC), State Finance Commission (SFC) and State Plan, Scheme specific grants *etc.*, to assist ULBs in carrying out their mandated functions.

Details of funds released during the financial years 2015-16 to 2020-21, under CFC, SFC and State Plan *etc.*, are given in **Table 3.3**.

**Table 3.3**  
**Release of grants under CFC, SFC and CSS**

Sl. No.	Grant Head	Financial Year(s)	Funds released (₹ in crore)
1.	15 <sup>th</sup> FC	2020-2021	1,412.00
2.	5 <sup>th</sup> SFC	2015-16 to 2020-21	5,729.27
3.	Smart City	2015-16 to 2020-21	952.00
4.	SBM	2015-16 to 2020-21	1,009.36
5.	AMRUT	2015-16 to 2020-21	1,616.47
6.	NULM	2015-16 to 2019-20	248.92

(Source: 6<sup>th</sup> SFC report and allotment letters of UD&HD, GoB)

Further, details of grants released by the Department to ULBs under different heads for the FY 2021-22 was not furnished (April 2023).

Further, it was observed that the dependence of ULBs on government grants, for meeting their establishment expenditure, was increasing, as reflected in the projection of the own receipts of ULBs and the establishment expenditure incurred by the Department.

**(iii) Devolution of functionaries**

Section 36 of the BMA, 2007, provided for a number of posts for ULBs, but most of these posts were vacant. As per information furnished by the Department (May 2023), persons-in-position against sanctioned strength for administrative and technical posts are given in the **Table 3.4**.

**Table 3.4**  
**Persons-in-Position against the Sanctioned Strength of administrative and technical posts**

Sl No	Post	Sanctioned Strength	Persons-in-position	Vacancy	Percentage of vacancy
<b>Administrative posts</b>					
(i)	Municipal Commissioner	18	18	00	0
(ii)	Deputy Municipal Commissioner	55	21	34	62
(iii)	Executive officer	253	155	98	39
(iv)	City Manager	391	62 (03 regular and 59 on contract)	329	84
<b>Sub Total (A)</b>		<b>717</b>	<b>256</b>	<b>461</b>	<b>64</b>
<b>Technical posts</b>					
(v)	Chief Engineer	07	02	05	71
(vi)	Superintending Engineer	23 (Civil) + 02 (Mechanical) = 25	14 (Civil)	11	44
(vii)	Executive Engineer	93 (Civil) + 06 (Mechanical) + 12 (Electrical) = 111	36 (Civil) + 04 (Mechanical) + 01 (Electrical) = 41	70	63
(viii)	Assistant Engineer	237 (Civil) + 68 (Mechanical) + 06 (Electrical) = 311	92 (Civil) + 31 (Mechanical) + 02 (Electrical) = 125	186	60
(ix)	Junior Engineer	486 (Civil) + 70 (Mechanical) + 50 (Electrical) = 606	67 (Civil) + 08 (Mechanical) + 00 (Electrical) = 75	531	87
<b>Sub Total (B)</b>		<b>1,060</b>	<b>257</b>	<b>803</b>	<b>76</b>
<b>Grand Total (A + B)</b>		<b>1,777</b>	<b>513</b>	<b>1,264</b>	

*(Source: Information furnished by the UD&HD, GoB)*

It is evident from the above table that 717 administrative posts had been sanctioned for ULBs, out of which, only 256 posts had been filled up and 461 posts (64 per cent) remained vacant while out of 1,060 sanctioned technical posts, only 257 posts had been filled up and 803 posts (76 per cent) remained vacant.

The Sixth SFC also observed that the manpower at the disposal of the ULBs in the State was grossly inadequate for performing the mandated functions effectively.



### 3.4 Formation of various committees

#### 3.4.1 Empowered Standing Committees

Sections 21 and 22 of BMA, 2007, provided that (i) there would be an Empowered Standing Committee (ESC) in every Municipality, (ii) the executive powers of a Municipality would be vested in the ESC and (iii) the Chief Councillor would exercise such powers and functions, as delegated to him/her, by the ESC. The composition of the ESCs is shown in **Table 3.5**.

**Table 3.5**  
**Empowered Standing Committees**

Category of ULBs	Presiding Officer	Composition of ESC
Municipal Corporation	Mayor	Mayor, Deputy Mayor and seven other Councillors
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 BMA, 2007)

The ESCs were 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 (January 2022) that ESCs had been constituted in all the Municipalities in the State, in the light of Section 21 of BMA, 2007.

#### 3.4.2 Municipal Accounts Committee

Section 98 of the BMA, 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 are as follows:

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

With regard to constitution of the Municipal Accounts Committees in ULBs, the Project Officer-cum-Additional Director, UD&HD stated (January 2022) that Municipal Accounts Committee had not been constituted in ULBs. However, the reason for non-constitution of the Municipal Accounts Committees was not mentioned. Audit was not updated about the further development (April 2023).

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

### **3.4.3 Subject Committee**

Rule 32 of BMA, 2007, provides 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 the urban poor. The recommendations of a Subject Committee are to be submitted to the ESC, for its consideration.

The UD&HD stated (January 2022) that Subject Committees, to be constituted in the light of Section 32 of BMA, 2007, had not been constituted. However, the reason for non-constitution of the Subject Committee was not mentioned. Audit was not updated about the further development (April 2023).

Due to non-constitution of Subject Committees, specialised advice/recommendations, on functions/matters to be entrusted to the Committees, remained unavailable to the ESCs.

### **3.4.4 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 is 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 Wards 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 and otherwise; collection and removal of solid waste; disinfection; provision of health immunisation services; slum services; provision of lighting *etc.* The Sixth SFC had, however, observed that Wards Committees were not functional in the State.

In this regard, the UD&HD replied (January 2022) that Wards Committees had not been constituted in the ULBs. However, the reason for non-constitution of the Wards Committees was not mentioned. Audit was not updated about the further development (April 2023).

## **3.5 Audit Arrangements**

### **3.5.1 Primary Auditor**

Section 91(1) of the BMA, 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 BMA, 2007 (amended in 2014) (i) the CAG of India shall provide Technical Guidance and Support (TGS) over proper maintenance

of accounts and audit of the accounts of ULBs (ii) an Annual Report, prepared based on the TGS, shall be placed before the ESCs of the Municipalities and (iii) the CAG may, at his discretion, place the report before the State Legislature.

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

Further, in pursuance of CFC recommendations, the State Government had notified (June 2015) 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. The Directorate has since been functioning (since 11 June 2015). 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 the GoB in December 2015 and subsequently, audit of the accounts of LBs, by the CAG, under the TGS system, commenced in the State from January 2017. Consequently, the DLFA has been performing the role of Primary External Auditor for LBs, since January 2017.

### ***3.5.2 Audit by the Comptroller and Auditor General of India***

The 11th Finance Commission had recommended that (i) the CAG should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and (ii) audit for all tiers/levels of LBs and his ATIR, as well as the Annual Report of the DLFA, must be placed before the State Legislature.

The Finance Department, GoB intimated (December 2015) the Accountant General (Audit), Bihar, that the State Government had accepted the Standard Terms and Conditions, under the Regulations on Audit and Accounts, 2007, for audit of LBs under the TGS arrangement. Consequently, audit under TGS arrangement commenced in the State, from January 2017. AG (Audit) Bihar conducted audit of 28 ULB units<sup>24</sup>, during FY 2021-22, under the TGS arrangement.

## **3.6 Response to audit Observations**

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

Consequent upon the completion of field audit, IRs, containing audit findings, were to be sent to the audited entities, with a copy to the concerned Department of GoB. The Municipal Commissioners/Executive Officers of the audited entities concerned were required to (i) respond to observations contained in the IRs and (ii) 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. Moreover, the Finance Department, GoB constituted

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<sup>24</sup> Nagar Nigam (05), Nagar Parishad (21) and Nagar Panchayat (02)

(March 2010) three tiers of Committees viz. High level, Departmental level and District level for review/ compliance of audit paragraphs. But, for the last three years i.e. from 2019-20 to 2021-22, no District level Committee meeting was held. This was one of the reasons for non-compliance of audit paragraphs. The status of settlement of audit paragraphs, for the last five financial years (as of March 2023), is given in **Table 3.6**.

**Table 3.6**  
**Outstanding audit paragraphs for the last five financial years**  
**(2017-18 to 2021-22)**

(₹ 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)
2017-18	32	884	957.61	315	3.36	569	954.25
2018-19	31	644	383.46	4	0.086	640	383.37
2019-20	27	826	731.90	1	0.0072	825	731.89
2020-21	01	58	536.36	0	0	58	536.36
2021-22	28	474	1,488.97	0	0	474	1,488.97
<b>Total</b>	<b>119</b>	<b>2,886</b>	<b>4,098.30</b>	<b>320</b>	<b>3.4532</b>	<b>2,566</b>	<b>4,094.85</b>

(Source: Inspection Reports of ULBs)

It is evident from the table above that, out of the 2,886 audit paragraphs contained in 119 IRs, only 320 paragraphs (11 per cent) were settled, whereas, 2,566 paragraphs, involving an amount of ₹ 4,094.85 crore, remained outstanding (as of March 2023).

Lack of action on compliance of IRs was fraught with the risk of perpetuating serious financial irregularities, as pointed out in these reports.

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

In Bihar, ELA's reports were prepared for the period covered by the financial years 2005-06 to 2013-14, followed by CAG's Audit Reports on LBs, for the financial years 2014-15 and 2015-16. Thereafter, the first Annual Technical Inspection Report (ATIR), for the financial years 2017-19, was prepared and submitted to the Governor of the State. The report had been placed before State Legislature (16 December 2022). 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 Audit Report

The Finance Department, GoB, constituted (March 2010) three-tiers 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 Committee<sup>25</sup> had the responsibility of ensuring compliance of audit paragraphs/ reports received by the ULBs in that district. The Department Level Committee<sup>26</sup> was required to review the status of compliance made by the

<sup>25</sup> Headed by the District Magistrate/Deputy Development Commissioner

<sup>26</sup> Headed by the Principal Secretary/Secretary of the UD&HD, GoB

District Level Committees, while the High Level Committee<sup>27</sup> had to meet once in six months, to review the functioning of the District Level and Department Level Committees.

It was, however, observed that during the financial years 2021-22, no District Level Committee meetings were held (against the proposed 57 meetings<sup>28</sup>). As such, the audit paragraphs contained in the ELA's report remained unsettled. Further, no meetings of Departmental Level and High Level Committees were held during FY 2021-22 till April 2023. The last High Level Committee meeting and Department Level Committee meeting were held in August 2013 and July 2015, respectively.

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

### **(ii) Compliance to C&AG's Report on LBs**

As per provisions contained in Section 91(2) of the BMA 2007 (amended in January 2014), the Annual Report on account of ULBs, prepared by the CAG, may be laid before the State Legislature.

The first CAG's Report on LBs, GoB, for the financial year ended March 2015, was tabled in the State Legislature on 4 April 2016. Five paragraphs of the report were discussed in 16 meetings of Public Accounts Committee held during April 2016 to February 2023 but no audit observation had been settled (as of March 2023).

Further, the CAG's Report on LBs, for the year ended March 2016, was tabled in the State Legislature on 23 August 2017. But, no paragraph of the report has been discussed till March 2023.

## **3.7 Accountability Mechanism**

### **3.7.1 Lok Prahari (Ombudsman)**

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

The UD&HD stated (April 2022) that appointment of *Lok Prahari* was still under process. Audit was not updated about the further development (April 2023).

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<sup>27</sup> Headed by the Principal Secretary to the Finance Department, GoB and with the Principal Accountant General (Audit), Bihar, as a member.

<sup>28</sup> Seven districts had proposed a total of 57 district level committee meetings, as follows: Arwal-14, Bihar Sharif- 09, Gopalganj- 01, Jamui- 12, Kaimur- 09, Kishanganj- 09, Samastipur-03



### **3.7.2 Social Audit**

Social Audit primarily aims to ensure public accountability in the implementation of projects, laws and policies, through public participation. The 5<sup>th</sup> SFC had recommended that Social Audit be conducted in ULBs, as an accountability measure, with Social Audit for slum and poverty alleviation programmes being absolutely necessary. The Sixth SFC had also recommended that the practice of carrying out Social Audit be introduced in ULBs.

However, no Social Audit of schemes implemented by ULBs had been conducted, (as of November 2021). The UD&HD did not furnish any reasons for non-conduct of Social Audit. Audit was not updated about the further developments (April 2023).

### **3.7.3 Property Tax Board**

Section 138(A) of the BMA, 2007, provides for putting in place a State level Property Tax Board, for providing independent and transparent procedures, to optimise the assessment, collection and recovery of Property Tax. The 13<sup>th</sup> 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.

UD&HD, GoB, had framed and notified (May 2013) the Bihar Property Tax Board Rules, 2013, which necessitated the constitution of a Property Tax Board. However, the board had not been constituted (as of November 2021). UD&HD, GoB replied (November 2021) that suitable action was under process. Audit was not updated about the further development (April 2023).

Due to non-constitution of the Property Tax Board, even after a lapse of 10 years since framing of the Property Tax Board Rules, widening of the tax net and collection and recovery of Property Tax in ULBs, could not be optimised. Further, the performance of each ULB could not be evaluated on a continuous basis, as had been envisaged.

### **3.7.4 Fire Hazard Response**

As per the 13<sup>th</sup> 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 (*i.e.*, the Patna Municipal Corporation) was more than one million, as per 2011 census.

UD&HD, GoB, had notified (March 2011) the Fire Hazard Response and Mitigation Plan, for the Patna Municipal Corporation (PMC). On the functioning & implementation of the Fire Hazard Response and Mitigation Plan in PMC, the Municipal Commissioner, PMC, replied (April 2019) that necessary compliance would be made at the earliest. On this being pointed out in audit, UD&HD stated (November 2021) that suitable action was under process. Audit was not updated about the further development (April 2023).

### **3.7.5 Submission of Utilisation Certificates**

Rule 342 (1) of the Bihar Financial Rules (BFR) provides that grantee entities are to submit Utilisation Certificates (UCs) for grants, within 18 months from

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

As per data relating to UCs, compiled by the office of the AG (A&E), Bihar Patna, it was observed that UD&HD had sanctioned Grants-in-Aids (GIA) of ₹ 31,564.70 crore, during the period from FYs 2003-04 to 2021-22 against which UCs of ₹ 19,445.30 crore were submitted while ₹ 12,119.42 crore (38 per cent) were pending for adjustment (as of March 2023), as given in **Table 3.7**.

**Table 3.7**  
**Percentage of pending UCs**

(₹ in crore)

Year	UCs due	UCs submitted	Outstanding UCs	Percentage of Pending UCs
2003-04 to 2021-22	31,564.70	19,445.30	12,119.42	38

(Source: O/o AG (A&E), Bihar)

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

### 3.7.6 Internal Audit and maintenance of accounts

#### (i) Internal Audit

The Department had engaged (April 2016) 17 CAs, for internal audit of the accounts of 140 Municipalities, for the financial years 2014-15 to 2016-17. For the financial years 2017-18 to 2019-20, the Department engaged (January 2019) six CA firms for this purpose. Audit of the accounts of ULBs was to be completed till September 2020. The status of audit, as of May 2023, is given in **Table 3.8**.

**Table 3.8**  
**Units audited and reports submitted by CA firms**

Sl. No.	Financial Year	No. of audits to be conducted	Audits completed	Reports submitted by the CA firms	No. of reports uploaded
1.	2017-18	141	141	141	141
2.	2018-19	141	141	141	141
3.	2019-20	141	104	104	104
4.	2020-21	46	46	45	45
5.	2021-22	46	43	25	25
<b>Total</b>		<b>515</b>	<b>475</b>	<b>456</b>	<b>456</b>

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

As evident from the preceding Table, out of the 515 internal audits to be conducted, 475 internal audits were actually conducted during FYs 2017-18 to 2021-22 and only 456 reports were finally uploaded on the UD&HD website (as of May 2023).

#### (ii) Maintenance of accounts by ULBs in Double Entry Accounting System

The Ministry of Urban Development, GoI, in consultation with the CAG, had prepared (2004) the National Municipal Accounts Manual, for maintenance of

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

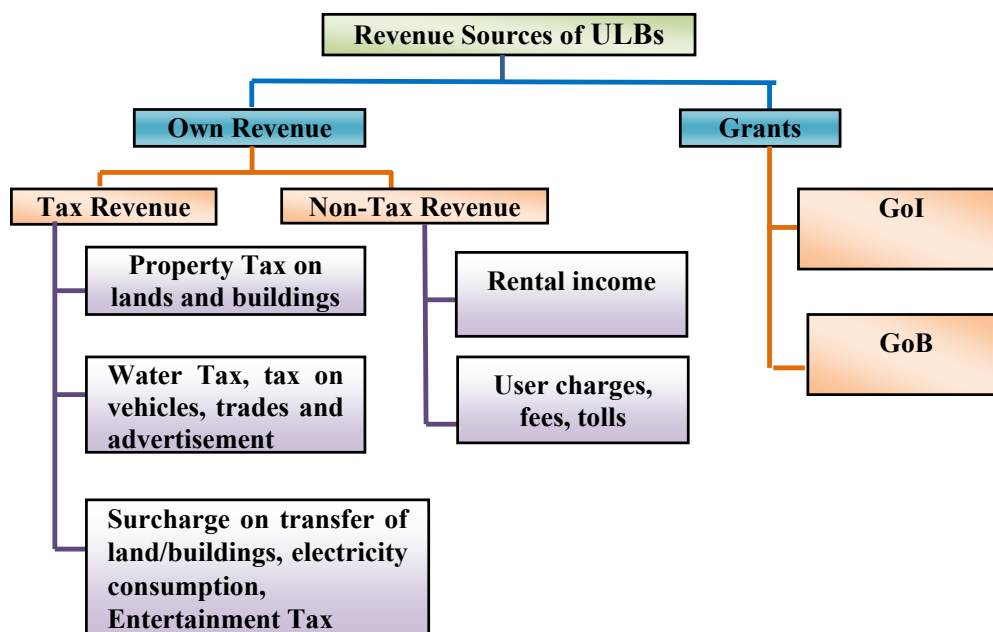
About the present status of implementation of DEAS, the Department stated (May 2023) that, out of total 261 ULB, full implementation of accounts in DEAS was done in only 63 ULBs, while, in the 76 ULBs, it was partially implemented and in the remaining 122 ULBs, it was not started.

### 3.8 Financial Reporting Issues

#### 3.8.1 Sources of Funds

The Bihar Municipal Act, 2007, lists out the set of taxes which the Municipalities may levy for raising revenues. The Municipalities may additionally levy users-charges, for delivering the various services mentioned in the Act. Further, fees and fines are leviable on the sanction of building plans, issue of municipal licenses for use of lands *etc.* The BMA also provides for grants-in-aid for Municipalities, based on the recommendations of CFC and SFC. The sources of funds for ULBs are shown in **Chart 3.1**.

**Chart 3.1: Sources of Funds**



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



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

The budget provisions made by the State Government for the UD&HD (including ULBs), the state share towards GoI Schemes and grants received under the recommendations of CFCs and SFCs for the financial years 2017-18 to 2021-22, are given in **Table 3.9**.

**Table - 3.9**  
**Budget allocation vis-à-vis expenditure**

(₹ in crore)

Sl. No.	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	5,047.93	5,361.29	6,235.04	9,343.20	10,031.62	36,019.08
		Capital	0.00	3.00	160.00	250.00	1,550.00	1,963.00
		<b>Total</b>	<b>5,047.93</b>	<b>5,364.29</b>	<b>6,395.04</b>	<b>9,593.20</b>	<b>11,581.62</b>	<b>37,982.08</b>
2.	Expenditure	Revenue	3,236.04	3,297.02	2,984.53	5,590.39	5,883.84	20,991.82
		Capital	0.00	3.00	160.00	50.00	1,057.59	1270.59
		<b>Total</b>	<b>3,236.04</b>	<b>3,300.02</b>	<b>3,144.53</b>	<b>5,640.39</b>	<b>6,941.43</b>	<b>22,262.41</b>
3.	<b>Saving (1-2)</b>	<b>1,811.89</b>	<b>2,064.27</b>	<b>3,250.51</b>	<b>3,952.81</b>	<b>4,640.19</b>	<b>15,719.67</b>	
4.	<b>Percentage of saving</b>	<b>36</b>	<b>38</b>	<b>51</b>	<b>41</b>	<b>40</b>		

(Source: Appropriation Accounts of Government of Bihar)

As evident from the preceding Table, UD&HD could not utilise its budgetary allocation fully and the percentage of savings ranged between 36 per cent and 51 per cent, during the financial years 2017-18 to 2021-22. Moreover, even though the total allocation under the Capital head was 5.2 per cent of the total allocation during FYs 2017-18 to 2021-22, yet it was not fully utilised.

### 3.8.3 Recommendation of the 15<sup>th</sup> Finance Commission

The President of India constituted (27 November 2017) the 15<sup>th</sup> FC, under Article 280 of the Constitution, to make recommendations for a period of five financial years, commencing from 1st April 2020. The Commission submitted its report in two parts (i) an interim report for the financial year 2020-21 only, in December 2019 and (ii) the main report, for the financial years 2021-22 to 2025-26, in November 2020. For ULBs, the 15<sup>th</sup> FC recommended division of grants in two categories: (a) Million-Plus urban agglomerations/cities and (b) all other cities and towns with less than one million populations. For non- Million-Plus towns, 50 per cent of the grants were untied and the remaining 50 per cent were tied, with an equal share for drinking water and sanitation. The Commission did not recommend any conditions for ULBs in 2020-21, but two entry level conditions were recommended for release of grants in the subsequent years (i) notifying the minimum rates of property tax, to improve own revenues and (ii) timely submission of audited accounts. The 15<sup>th</sup> FC recommended grants amounting to ₹ 2,416.00 crore<sup>29</sup>, for ULBs of Bihar, for the financial year 2020-21. Bihar received grants of ₹ 2,416.00 crore (₹2,008 crore for Non-Million Cities, till 25 March 2021 and ₹ 408 crore for Million Plus City, till 31 March 2021) from the GoI and the same were released to ULBs, during May 2020 to April 2021.

<sup>29</sup> *Million Plus Cities Grant*- ₹ 408.00 crore; *Non –Million Cities Grant*- ₹ 2,008.00 crore

Further, GoI released an amount of ₹ 836.25 crore during FY 2021-22 to the State Government for ULBs against recommended amount of ₹ 1,827 crore. Thus, State could not get its complete share as it did not fulfill the mandatory criteria.

### 3.8.4 Recommendation of the State Finance Commission

In terms of Article 243-Y, read with 243-I of the Constitution of India and as per provisions contained in Section 71 of the BMA, 2007, GoB had constituted State Finance Commissions to (i) review the financial position of LBs and (ii) recommend the principles for governing the distribution of net proceeds of taxes, duties *etc.*, between the State and the LBs.

GoB constituted (February 2019) the 6<sup>th</sup> SFC, for the financial years 2020-21 to 2024-25, in pursuance of Article 243-Y, read with Article 243-I of the Constitution of India and Section 71 of the BMA, 2007. The 6<sup>th</sup> SFC submitted its report in two parts. It submitted an interim report for the financial year 2020-21 on 8 January 2020 and then submitted its final report, for the period covered by the financial years 2021-22 to 2024-25, in April 2021. The final report was accepted by the GoB in August 2021. In terms of the recommendations of the 6<sup>th</sup> SFC, funds amounting to ₹ 10,457 crore were to be devolved to ULBs, during the period covered by the financial years 2021-22 to 2024-25, as given in **Table 3.10**.

**Table 3.10**  
**Grants and devolution (projected) to be released to ULBs**

(₹ 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 ULBs	2,103	2,455	2,759	3,140	10,457

(Source: Report of 6<sup>th</sup> SFC)

Further, during 2021-22, out of total provisioned amount of ₹ 3,751.74 crore (Devolution- ₹ 1,898.69 crore and Grants- ₹ 1,853.05 crore), only ₹ 1,125.52 crore (30 per cent) was assigned for ULBs while State Government adopted 65:35 formula for provisioning of funds for PRIs and ULBs for the period 2021-22 to 2024-25 on the recommendation of 6<sup>th</sup> SFC.

### 3.8.5 Issues related to AC/DC Bills

Rule 177 of the Bihar Treasury Code (BTC), 2011, provides that a certificate is to 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 (i) countersigned Detailed Contingent (DC) bills shall 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 shall be encashed after the end of this period of six months, unless the corresponding DC bills have been submitted. Details of unadjusted AC bills are given in **Table 3.11**.

**Table 3.11**  
**Details of AC bills pending for adjustment**

(₹ in crore)

Financial Year (s)	Amount drawn through AC bills	Adjusted AC bills	Unadjusted AC bills	Percentage of unadjusted AC bills
2003-04 to 2019-20	51.74	17.46	34.29	66

(Source: Information furnished by UD&HD)

As evident from the preceding Table, AC bills amounting to ₹ 34.29 crore (66 per cent of the total amount drawn through AC bills) remained outstanding for adjustment (as of May 2023).

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

### 3.8.6 Impact of Audit

In 12 test-checked ULBs<sup>30</sup>, Audit had suggested recovery of an amount of ₹ 5.74 crore, during FY 2021-22. Out of this, ₹ 5.42 lakh had been deposited by five ULBs<sup>31</sup> (as of November 2022) on account of registration fees, stamp duty, money receipts, miscellaneous receipts and property tax.

<sup>30</sup> **Nagar Nigam-** Bhagalpur and Gaya; **Nagar Parishad-** Aurangabad, Jamalpur, Khagaria, Khagaul, Sherghati and Teghra; **Nagar Panchayat-** Barihiya, Bihiya, Piro and Shahpur

<sup>31</sup> **Nagar Parishad-** Jamalpur (₹ 0.03 lakh), Khagaria (₹ 3.08 lakh), Teghra (₹ 0.14 lakh); **Nagar Panchayat-** Bihiya (₹ 0.15 lakh), Barhiya (₹ 2.02 lakh)

