

CHAPTER - II

FINANCIAL MANAGEMENT AND REPORTING

The people of Bihar, both rural and urban, by and large, suffer from a large number of social and economic problems. These problems primarily relate to water, health and sanitation, education, road, electricity, irrigation, housing *etc.* Providing access to the basic services such as water supply, sanitation, power, roads, housing, *etc.* at affordable prices helps improve the quality of life of the people in general and poor in particular. For this the proper management of funds and its utilisation are an essential pre-requisite.

2.1 Fund Flow Arrangement

The State Government, as a regular feature, transfers various types of grants and provides assistance to the ULBs, particularly in the light of the SFC recommendations which may be categorised as: -

- (i) The State Government from time to time transfers grants and/or financial assistance for use by the ULBs.
- (ii) The State Government provides grants and/or financial assistance to different kinds of ULBs for particular scheme with conditionalities imposed on there.
- (iii) That State Government would also provide for grant for partial or full execution of schemes included in the Annual Development Plans of the ULBs.

The ULBs also get funds from the Central Government under Centrally Sponsored Schemes and Centrally Assisted schemes.

Besides, the ULBs have their own sources of revenue through levy of taxes, fees, user charges *etc.* They may raise loans or receive grants and assistance from any other institutions. The position of Funds available (FA) with UD&HD and Funds Transferred (FT) to ULBs during the period 2007-08 to 2010-11, is as under: -

**Table- 4
Fund Flow**

(₹ in Crore)

Head	2007-08		2008-09		2009-10		2010-11	
	FA	FT	FA	FT	FA	FT	FA	FT
2215	94.03	65.20	158.97	131.31	193.14	73.77	126.00	95.29
2217	786.91	238.89	1127.42	569.50	993.90	850.96	937.00	319.18
4217	NA	NA	NA	NA	10.00	10.00	700.00	0
TOTAL	880.94	304.09	1286.39	700.81	1197.04	934.73	1763.00	414.47

(Source: UD&HD, 16/12/2011)

The unutilised balance of 56 ULBs as on 31 March 2010 was ₹ 325.63 crore (Appendix-II).

2.2 Revenue Receipts

2.2.1 Irregular Appropriation of Government Revenue towards Establishment - ₹ 13.68 Crore

As per the Bihar Primary Education Cess (Amendment) Act, 1959 and Bihar Health Cess Rules, 1972, the ULBs were authorised to collect education and health cess @ 50 per cent each of holding tax and the revenue so collected was to be deposited in appropriate heads of the Government accounts after deducting 10 per cent as collection charges. Nine ULBs² did not deposited 90 per cent of cess amounting to ₹ 13.68 crore collected during 2000-01 to 2009-10 in Government account, instead they appropriated the same towards payment of salary to staff and meeting other recurring expenditure.

2.2.2 Non-Realisation of Holding Tax Outstanding against Buildings owned by Government Departments - ₹ 12.26 Crore

In 16 ULBs, holding tax amounting to ₹ 12.26 crore was outstanding against building owned by Government Departments (Appendix-III). Effective steps were not taken by the Executives of those ULBs to recover the dues from concerned department/authorities resulting in deprivation of potential revenue to the ULBs.

² Bhagalpur (₹78.42 lakh), Chanpatia (₹2.05 lakh), Daudnagar (₹4.27 lakh), Gaya (₹519.86 lakh), Gopalganj (₹20.29 lakh), Lakhisarai (₹4.83 lakh), Muzaffarpur (₹680.72 lakh), Sasaram (₹55.84 lakh), Sahpur (₹1.52 lakh).

2.2.3 Non-Realisation of Holding Tax Outstanding against Private Buildings - ₹ 28.20 Crore

As per Rule 15 of Municipal Accounts Rules (Recovery of Taxes), 1951, the Demand and Collection Register is the principle record of the Assessment Department and the officer in charge of the department shall be responsible to see that it is correctly prepared and that all alterations therein are attested by the proper authority.

It was noticed that Demand and Collection Register of holding taxes in Form B was either not maintained or maintained improperly by the ULBs. As per figure furnished by 14 ULBs, unrealised holding tax on private buildings stood at ₹ 28.20 crore as on 31 March 2010 (**Appendix-IV**). The huge accumulation of tax was rendered possible due to non-issue of demand notice, warrants, distress warrants, besides non filing of money suits/certificate cases against defaulters as per provisions under Municipal Accounts Rules (Recovery of taxes), 1951.

2.2.4 Outstanding Rent - ₹ 1.72 Crore

As per section 247 of the Bihar Municipal Act, 2007 the Chief Municipal Officer either on his own or through any other agency, as the case may be, charge stallage, rent or fee for the occupation or use of facilities in a municipal market.

In 10 ULBs, shops/markets rent amounting to ₹ 1.72 crore was outstanding for varying periods as on 31 March 2010 (**Appendix-V**). Non realisation of rent from tenants deprived the ULBs of their own revenue in time. The ULBs failed to take effective steps to realise the dues.

2.3 Irregularities in Approval of Building Maps in PMC

- Section 316 of Bihar Municipal Act, 2007 stipulates that building plan approved by the Registered Architect is to be submitted to the Chief Municipal Officer.

Further, it also stipulates that on receipt of approved building plan, the Chief Municipal Officer may inquire and verify and satisfy himself that the building construction plan conforms building bye-laws and other parameters required

under this Act, but provisions of this section was not implemented by the PMC.

- As per Building Bye-Laws, Part II Bye-Laws no. 27, clearance of local fire brigade authority is needed in buildings having ground coverage area of 500 sq. meter and height above 15 meters. Further, By-Laws no. 27.2 clearly stipulates that in case of building having more than 15 meter height or 500 sq meter plinth area, a clear passage of 3.66 meter all around the building with clear height of five meter to facilitate the movement of fire vehicle shall be provided. On test check it was found that maps of multi-storeyed buildings were approved by PMC without fire clearance contrary to the provisions of the Building Bye-Laws.

2.4 Irregular Construction of Multi-storeyed Buildings on Plots Leased by PRDA

As per Rule 20 of Patna Regional Development Authority (Disposal of Land) Rules, 1978, no plot or part thereof leased by the authority shall be transferred by sale or gift without the permission of the authority. Further, where the authority grants permission for the transfer of land the allottee shall pay a mutation fee equal to 50 *per cent* of excess of sale price over the premium paid by him.

In eight cases test checked in PMC, it was observed that development agreements were signed between the builders and the lessee for construction of multi-storeyed buildings without permission from the Authority.

Thus, construction of multi-storeyed building on leased land of PRDA was in gross violation of the above Rule. Further, the PRDA (dissolved) was also deprived of mutation fee worth ₹ 1.43 crore (**Appendix-VI**). No reply was furnished in this regard.

2.5 Loss of Revenue due to Non-recovery of Penalty on Compounding Fee in PMC - ₹ 49.30 Lakh

Rule 10.2 of Building Bye-laws of the PRDA (Disposal of Land) Rules, 1978 provides for imposition of compounding fee in case the buildings are constructed in violation to the said Bye-laws. Further, the Municipal Commissioner ordered

(18/09/2007) to recover penalty at the rate of five times of compounding and other fee from the builders of such buildings.

Test check of records of PRDA (Dissolved) (now PMC), relating to approval of maps for construction of multi-storeyed building revealed that revised maps for additional floors on already constructed building were submitted to PMC for approval. The PMC approved the revised maps in 2009-10 without recovery or less recovery of penalty on compounding and other fee from the builders of the multi-storeyed buildings. This resulted in loss of revenue of ₹ 49.30 lakh **(Appendix-VII)**.

2.6 Irregularities in Realisation of Advertisement Tax/Royalty

2.6.1 Advertisement Tax/Royalty Outstanding with Advertising Agencies - ₹ 1.56 Crore

The PMC prescribed different rates of advertisement tax / royalty for Government/Non-Government / Private land @ Rs. 10/sq. feet which was to be effective from August 2007 against which 26 agencies deposited the advertisement tax / royalty @ ₹ 1 per sq. feet. Thus, a sum of ₹ 1.56 crore remained outstanding for realisation from the Agencies **(Appendix-VIII)**. No reason for realisation of advertisement tax / royalty at a lower rate was furnished to audit.

2.6.2 Loss due to Execution of Faulty Agreement with Advertising Agencies for Installation of Unipoles by PMC - ₹ 37.36 Lakh

The Empowered Standing Committee (ESC) in its meeting on 24/08/07 (Proposal No. 47) and general meeting on 29/09/07 (Proposal No. 13) decided to charge royalty @ ₹ 75,000 p.a. for each unipole. Accordingly, five advertising agencies requested for installation of 10 unipoles (size 20'x10' or 30'x10') each for one year while M/s Craft Outdoor Media Pvt. Limited requested for two years. PMC accepted their requests and agreements were executed between the Chief Municipal Commissioner and the representatives of the advertising agencies. The agreement was executed @ ₹ 80/sq.ft instead of ₹ 75,000/unipole. Due to execution of agreement @ 80/sq. ft, the amount of royalty for each unipole was

₹ 16000 (for size 200 sq. ft) and ₹ 24,000 (for size 300 sq.ft) which is much below the rate prescribed by PMC for each unipole i.e. ₹ 75,000. Four agencies paid royalty @ ₹ 80/ sq. ft. while M/s Bandhu Brothers did not deposit the royalty amount.

Thus, due to execution of faulty agreements at lower rate and non-recovery of royalty from M/s Bandhu Brothers with an intention to give undue benefit to the advertising agencies, the PMC sustained loss of ₹ 37.36 lakh (Table- 5).

Table- 5
Statement Showing Loss of Revenue due to Execution of Faulty Agreement

(Amount in ₹)

Name of advertising agency	Letter of approval of request by PMC & date of agreement	No. of unipole	Rate of each unipole	Amount to be deposited	Amount deposited@ 80/- sq.ft.	Loss
M/s Bandhu Brothers	233/Rev Pat dt. 21/08/09 (03/09/09)	10	75000	750000	NIL	750000
M/s Trimurti Publicity & Marketing Pvt. Ltd.	234/Rev Pat 21/08/09 (03/09/09)	10	75000	750000	136890	613110
M/s Klik Advertising &Marketing	236/Rev pat- 21/08/09 (02/09/09)	10	75000	750000	136890	613110
M/s Kraft Outdoor Media Pvt. Ltd.	235/Rev. dt 21/08/09 (02/09/09)	10	75000	1500000 *	352889	1147111
M/s Selvel Advertising Pvt. Ltd	232/rev pat. 21/08/09 (02/09/09)	10	75000	750000	136890	613110
(* For two years)					Total	3736441

2.7 Defalcation of Collected Money by Showing Fake Challan by the Cashier of New Capital Circle (NCC) in PMC - ₹ 3.84 Lakh

As per Rule 21 of Bihar Municipal Accounts Rule, 1928, all sums received on accounts of municipal fund shall be paid into a treasury.

Further, Rule 22 of Bihar Municipal Accounts Rule, 1928 stipulates that all money received by the municipality shall be remitted intact to the treasury as often as can be conveniently managed and shall on no account be appropriated towards expenditure.

Further, as per Rule 23 of Bihar Municipal Accounts Rule, 1928, all moneys paid into the treasury to the credit of the municipal fund, whether by servants of the municipality or others, shall be accompanied by a challan in the appended Form

IV. A sum of ₹ 3.84 lakh was shown deposited by the then Cashier of NCC, Patna through fake challans as detailed below: -

Table- 6
Amount Deposited through Fake Challan

Sl.No.	Date of deposit as per Cash Book	Challan no.	Amount (₹)	Remarks
1.	01/06/09	31	1,13,253	All these challans were made of A/c No. 1748 of Corporation Bank.
2.	02/06/09	32	85,369	
3.	09/06/09	38	1,13,633	
4.	10/06/09	39	71,995	
Total			3,84,250	

But, the same was not deposited in the Bank. However, after raising audit objection, the whole amount of ₹ 3.84 lakh was deposited by him in A/c No. 301000018708 of Bank of Baroda on 28/09/10. The NCC requested the PMC to take necessary action against him.

2.8 Loss due to Non-Realisation of Stamp Duty from the Bidder during Settlement - ₹ 6.62 Lakh

As per order of the Chief Secretary, Government of Bihar and order of the Secretary- cum- I. G. Registration, stamp duty @ three *per cent* of the settlement amount is to be realised from the bidder and thereafter agreement of the settlement may be done on that stamp paper.

In seven³ ULBs, stamp duty worth ₹ 6.62 lakh *i.e.* @ three *per cent* of the settlement amount was not realised and agreement was not done on the stamp paper. As such, the State Government sustained a loss of ₹ 6.62 lakh as stamp duty.

2.9 Revenue Expenditure

2.9.1 Direct Appropriation of Revenue Collected- ₹ 41.23 Lakh

As per Rule 22 of Bihar Municipal Accounts Rule, 1928, all money received by the municipality shall be remitted intact to the treasury as often as can be

³ Buxar NP (₹ 0.76 lakh), Darbhanga MC (₹ 0.88 lakh), Gaya MC (₹ 1.85 lakh), Hisua NP (₹ 1.13 lakh), Purnea NP (₹ 0.76 lakh), Sasaram NP (₹ 1.04 lakh), Warsaliganj NP (₹ 0.20 lakh)

conveniently managed and shall on no account be appropriated towards expenditure.

In five⁴ test checked ULBs, ₹ 41.23 lakh was directly appropriated towards expenditure instead of depositing the revenue collected into the municipal fund.

Besides, violation of rules, direct appropriation indicates lack of control over revenues as per rule 20, 30, 64, 69 and 79 of BMAR, 1928.

2.9.2 Excess Drawal through Self Cheque in Nagar Panchayat, Daudnagar - ₹ 1.61 Lakh

As per Rule 65 of the Bihar Municipal Accounts Rule, 1928, the payment side of the cash book shall be posted from the details of the vouchers and of the cheques drawn. The amount of each cheque shall be entered as soon as the cheque is signed. A sum of ₹ 1.61 lakh was drawn in excess through self cheque in Nagar Panchayat, Daudnagar. Against the vouchers for ₹ 6.56 lakh only, an amount of ₹ 8.17 lakh was withdrawn which clearly indicated irregular overdrawal (**Table-7**). This excess drawal was rendered possible by inadequate monitoring and lack of internal control by the Executive Officer of Nagar Panchayat. Further, misappropriation of excess amount cannot be ruled out.

Table- 7

Irregular Overdrawal

Sl.No.	Cheque No./Date	Amount (₹)	Voucher No.	Amount spent (₹)	Irregular drawal (₹)
1	385864/29-06-06	395492	8 to 13	394391	1101
2	385873/29-06-06	38500	9 to 11	35000	3500
3	385878/11-09-06	27257	16 to 20	17777	9480
4	385879/12-09-06	22763	21	21713	1050
5	385885/31-10-06	5000	27 to 28	4000	1000
6	385894/29-12-06	38250	40 to 43	33250	5000
7	534216/24-08-07	13000	30	12500	500
8	534226/22-09-07	25900	39	22400	3500

⁴ Dalmianagar NP (₹ 7.67 lakh), Mahnar NP (₹ 2.10 lakh), Maner NP (₹ 30.15 lakh), Rafiganj NP (₹ 1.10 lakh) and Sugauli NP (₹ 0.21 lakh)

Sl.No.	Cheque No./Date	Amount (₹)	Voucher No.	Amount spent (₹)	Irregular drawal (₹)
9	011876/25-05-07	20000	not recorded	2000	18000
10	011877/16-10-07	94000	not recorded	92000	2000
11	534276/08-05-08	12901	88	1290	11611
12	534248/27-12-07	92716	62	2000	90716
13	534249/31-12-07	12514	63	7500	5014
14	534255/15-01-08	6100	68	4000	2100
15	534267/16-04-08	12551	80	6582	5969
TOTAL		816944		656403	160541

2.9.3 Unauthorised Payment to Casual Labourers – ₹ 1.80 Crore

The Government of Bihar through various orders strictly prohibited engagement of persons on daily wages. Contrary to this, Muzaffarpur Nagar Nigam spent a sum of ₹ 1.80 crore on their wages.

2.10 Others

2.10.1 Blockage of Fund - ₹ 72.97 Crore

As per Rule 343 (ii) of Bihar Financial Rules, any portion of amount which is not ultimately required for expenditure upon that object should be duly surrendered to Government but test check of records revealed that ₹ 72.97 crore received during 2006-07 to 2009-10 for various purposes was blocked in 19 ULBs for varying periods (**Appendix-IX**). It hampered development works which were to be executed through these grants, resulting in deprivation of amenities to urban population. No reasons for non-utilisation of funds were furnished.

2.10.2 Sanctioned Strength vis-a-vis Men-in-Position

The strength of each ULB has been sanctioned by the State Government. Pay and allowance of personnel of Municipalities are paid from their own sources as well as grants received from the Government.

The following statistics would show the overall position of sanctioned strength and men-in-position of 111 ULBs as on 2006-07 in the State of Bihar.

Table- 8
Sanctioned Strength and Men-in-Position as on March 2007

Sl.No.	Type of ULBs	No. of units	Sanctioned Strength	Men in Position	Short	% Short
1.	Nagar Nigam	10	6190	3727	2463	39.79
2.	Nagar Parishad	56	5459	3277	2182	39.97
3.	Nagar Panchayat	45	1126	625	501	44.49
Total		111	12775	7629	5146	

(Source:- Fourth State Finance Commission)

It may be seen in the table above that there were acute shortage of men-in-position against the sanctioned strength. In light of the increased workload due to transfer of more fund by the State as well as Central Government to the ULBs filling up of vacant posts has become an essential requirement.