

**PART – B**  
**URBAN LOCAL BODIES**



**CHAPTER – III**  
**AN OVERVIEW OF FUNCTIONING**  
**OF THE URBAN LOCAL BODIES (ULBs)**  
**IN BIHAR**



## Chapter - III

### An Overview of the Functioning of the Urban Local Bodies (ULBs) in Bihar

#### 3.1 Introduction

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

Accordingly, the Government of Bihar (GoB) enacted the Bihar Municipal Act (BM Act), 2007 by repealing the Bihar and Orissa Municipal Act, 1922 and framed Bihar Municipal Accounts Rules, 2014, the Bihar Municipal Accounting Manual and the Bihar Municipal Budget Manual. As per Census 2011, the urban population of Bihar was 1.18 crore constituting 11.29 *per cent* of the total population (10.41 crore) of the State. As of March 2016, there were 141 Urban Local Bodies (ULBs) in the State with 3,320 Councillors. The last election to the ULBs was held in May 2012.

Sections 7 and 20 of the BM Act, 2007 lay down the criteria for classification of municipal area by GoB. The number of ULBs on the basis of the population as ascertained in Census 2011 is given in **Table 3.1** below:

**Table - 3.1: Classification of ULBs**

Category of ULBs	Grade	Population	No. of ULBs
<b>Municipal Corporation</b>	Larger urban areas	More than 2 lakh	11
<b>Municipal Council</b>	Class 'A'	1.5 to 2 lakh	42
	Class 'B'	1 to 1.5 lakh	
	Class 'C'	0.40 to 1 lakh	
<b>Nagar Panchayat</b>	Transitional small urban areas	0.12 to 0.40 lakh	88

(Source: Section 7 and 20 of BM Act, 2007)

Municipal area of the State was divided into a number of wards on the basis of population which were determined and notified by the State Government. There were minimum 10 wards and maximum 75 wards across different classes of Municipality in the State. As of March 2016, there were 3,320 wards in the State.

#### 3.2 State Profile

The State of Bihar is among the least urbanised State in the country and only one city (Patna) of the State had more than one million population. Though Bihar has 8.6 *per cent* of India's total population, but only 3.1 *per cent* of its

urban population. The comparative demographic and development statistics of the State are given in **Table 3.2** below:

**Table - 3.2: Important statistics of the State**

Indicators	Unit	State	All over India
Urban Population	Million	11.76	377.11
Urban Population Density	Person per Sq. km	4811	3836
Urban Literacy	Per cent	76.86	84.11
Number of ULBs	Number	141	3700
Number of districts	Number	38	686
Urban poverty level	Per cent	31.2	13.7
Municipal per capita own revenue	₹	58	2540

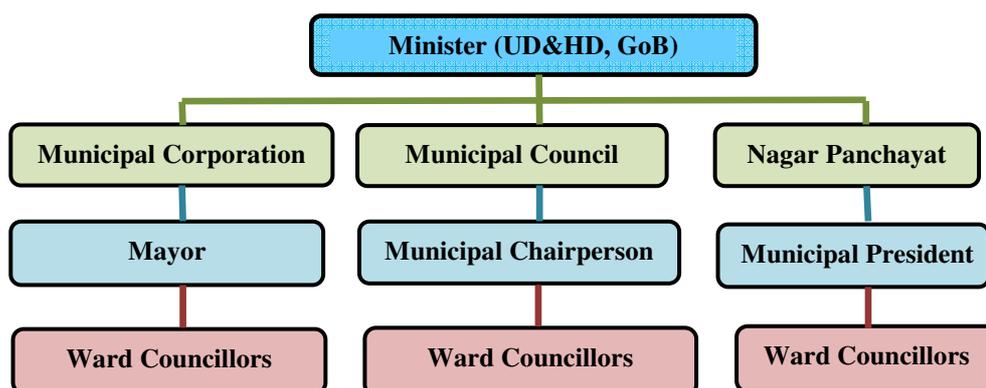
(Source: Fifth State Finance Commission Report and Report of Indian Institute of Public Administration, New Delhi)

### 3.3 Organisational set-up of ULBs

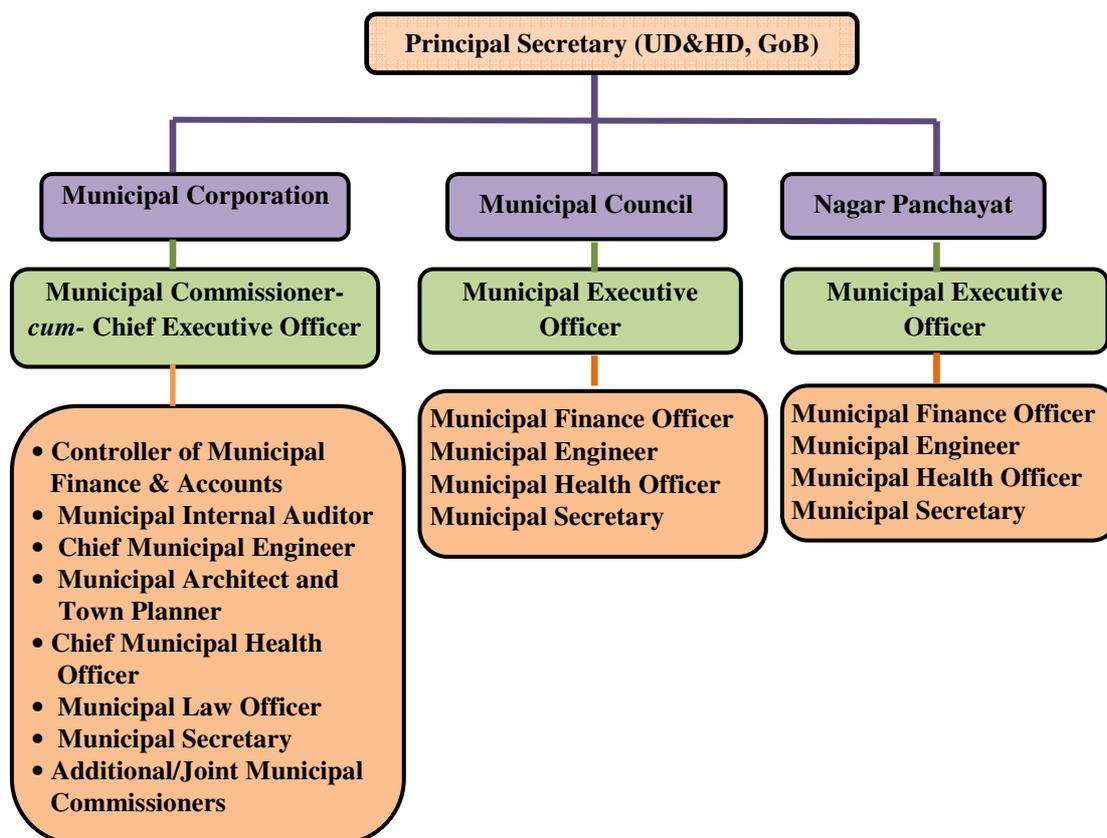
The ULBs are under administrative control of Urban Development and Housing Department (UD&HD), GoB and headed by the Principal Secretary. The Municipal Commissioner is the executive head of the Municipal Corporation while Municipal Council and Nagar Panchayat are headed by the Executive Officers appointed by the State Government. City Manager is appointed on contractual basis in ULBs to assist the Executive Officer.

The ULBs have an Empowered Standing Committee (ESC) comprising Councillors elected by the people and headed by the Mayor (for Municipal Corporations), the Chairperson (for Municipal Councils) and the Municipal President (for Nagar Panchayats) elected among members who preside over the meetings of the ESC. The organisational structure of ULBs is presented in **Chart 3.1** and **Chart 3.2** below:

**Chart - 3.1: Elected Body**



**Chart - 3.2: Administrative Body**



(Source: Section 36 of BM Act, 2007 and [www.urban.bih.nic.in](http://www.urban.bih.nic.in))

### 3.4 Functioning of ULBs

#### 3.4.1 Powers of the State Government

The BM Act, 2007 entrusts the State Government with certain powers so as to enable it to monitor proper functioning of the ULBs. The ULBs have some powers in delivery of some functions, but decision on all key issues rests largely with the State Government. A brief summary of powers of the State Government is given in **Table 3.3** below:

**Table - 3.3: Powers of the State Government**

Authority	Powers of the State Government
<b>Section 3 and 6</b>	<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 this Act.
<b>Section 44</b>	<b>State Municipal Vigilance Authority:</b> The State Government shall appoint <i>Lok Prahari</i> to inquire into any allegation of corruption, misconduct, lack of integrity or any kind of malpractice or mal-administration or misdemeanor of Chief/Deputy Chief Councilor/officers and other employees of the municipality.
<b>Section 65 and 66</b>	<b>Power to inspect office, call for records etc.:</b> The State Government may inspect any office or call for the records under the control of the ULBs.
<b>Section 87</b>	<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.
<b>Section 419</b>	<b>Power to make Rules:</b> The State Government may, by notification, make rules to carry out the purpose of BM Act, 2007 subject to approval by the State Legislature.
<b>Section 421 and 423</b>	<b>Power to make regulations:</b> The Municipality may make regulations for the purpose of giving effect to the provisions of BM Act, 2007 subject to approval of the State Government.
<b>Section 487</b>	<b>Removal of difficulties:</b> If any difficulty arises in giving effect to the provisions of BM Act, 2007, the State Government may do anything necessary to remove such difficulty.

(Source: BM Act, 2007)

### 3.4.2 Devolution of functions and funds

The Seventy-Fourth Constitutional Amendment Act (74<sup>th</sup> CAA) enables the ULBs to perform functions related to 18 subjects listed in the Twelfth Schedule of the Constitution. Accordingly, GoB made provisions in BM Act, 2007 for functions relating to 17 subjects (except fire services) to be carried out by the ULBs (*Appendix - 3.1*). Audit observed that out of these 17 subjects, functions relating to 12 subjects were carried out traditionally by the ULBs and functions relating to remaining five<sup>41</sup> subjects were performed by the functional departments of GoB. Separate notification regarding devolution of functions in terms of 74<sup>th</sup> CAA was not issued and activity mapping for clarification of roles and responsibilities to be carried out by ULBs was also not done. Due to poor staffing and technical incapacities of the ULBs, a number of Parastatal Bodies (PBs) were created for performing various functions of ULBs and funds were accordingly devolved to them. Thus, the

<sup>41</sup> (1) Water supply by Public Health and Engineering Department except in Patna (2) Urban forestry and protection of environment (3) Fire services (4) promotion of Art & Culture and (5) Primary education by Education Department.

functions of ULBs were overlapped by the functional departments/ PBs of GoB and even after a lapse of more than 24 years of 74<sup>th</sup> CAA, ULBs were not able to carry out mandated functions.

### 3.4.3 Devolution of functionaries

Section 36 of BM Act, 2007 provides a number of posts for ULBs but, most of these posts were vacant. Details of posts vacant as of September 2016 are given in **Table 3.4 (i) & (ii)** below:

**Table - 3.4 (i): Vacant posts of staff in ULBs**

Sl. No.	ULBs	Sanctioned Post	Men-in-Position	Vacancy	Percentage of vacant posts
1.	Municipal Corporation	5747	2524	3223	56
2.	Municipal Council	4923	1977	2946	60
3.	Nagar Panchayat	1783	807	976	55
<b>Total</b>		<b>12453</b>	<b>5308</b>	<b>7145</b>	<b>57</b>

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

**Table - 3.4 (ii): Vacant posts of Executive and technical staff in ULBs**

Sl. No.	Designation	Sanctioned Post	Men- in position	Vacancy	Percentage of vacant posts
1.	Executive Officer	130	22	108	83
2.	Assistant Engineer	70	3	67	96
3.	City Manager	152	69 (on contract)	83	55
4.	Junior Engineer	201	3	198	99

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

It is evident from the **Table 3.4 (i) & (ii)** above that ULBs were short staffed. Of the total 12,453 sanctioned posts, 7,145 posts (57 per cent) were vacant. Audit further observed that 40 per cent posts were vacant as of March 2007 which increased to 57 per cent as of September 2016. Further, 96 to 99 per cent posts of technical staff were also vacant. The role and responsibilities of the Executive Officer were being performed by the officers of other departments as 83 per cent posts of the Executive Officer were vacant as of September 2016. Functionaries available in the ULBs were grossly inadequate as there was a freeze on recruitment since 1990. Due to shortage of staff in ULBs, there was less utilisation of grants, inadequate maintenance of key records, creation of number of Parallel Bodies for performing various functions of ULBs etc. However, the UD&HD took step (February 2014, May 2016 and November 2016) for filling up the vacancies of Executive Officers, Junior Engineers and City Managers.

## 3.5 Formation of Committees

### 3.5.1 Empowered Standing Committees

Section 21 and 22 of BM Act, 2007 provide that in every Municipality, there shall be an Empowered Standing Committee (ESC) and the executive powers

of a Municipality shall vest in ESC. The Chief Councilor shall exercise such powers and functions as are delegated to him by the ESC. The composition of ESC is shown in **Table 3.5** below:

**Table - 3.5: Empowered Standing Committees**

Category of ULBs	Presiding Officer	Composition of ESC	Remarks
<b>Municipal Corporation</b>	Mayor	Mayor, Deputy Mayor and seven other Councillors	Other members of ESC shall be nominated by the Chief Councilor from amongst the elected Councillors.
<b>Class 'A' or 'B' Municipal Council</b>	Municipal Chairperson	Municipal Chairperson, Municipal Vice-Chairperson and five other Councillors	
<b>Class 'C' Municipal Council</b>	Municipal Chairperson	Municipal Chairperson, Municipal Vice-Chairperson and three other Councillors	
<b>Nagar Panchayat</b>	Municipal President	Municipal President, Municipal Vice-President and three other Councillors	

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

The ESC is collectively responsible to the Municipal Corporation, the Municipal Council and the Nagar Panchayat as the case may be.

### 3.5.2 District Planning Committees

Article 243ZD of the Constitution envisages formation of a District Planning Committee (DPC) to consolidate the plans prepared by both the Panchayats and the Municipalities in the district and to prepare a Draft Development Plan (DDP) for the district as a whole. Accordingly, GoB made provisions in BM Act, 2007 and framed constitution of Bihar District Planning Committee and Conduct of Business Rules, 2006.

Section 275 of BM Act, 2007 also provides that all development plan to be executed by the ULBs should be included in the DDP of the district consolidated by the DPCs and approved by the State Government. It was, however noticed that the development works executed up to 2015-16 by the ULBs from their own sources and civic amenities heads were not included in the DDPs of the district.

However, the Special Secretary, UD&HD stated (19 December 2016) that plans prepared by the ULBs for the year 2016-17 were consolidated by the DPC.

## 3.6 Audit Arrangements

### 3.6.1 Primary Auditor

Section 91(1) of BM Act, 2007 provides that the accounts contained in the financial statement, 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 BM Act, 2007 (amended in 2013) the CAG of India shall provide Technical Guidance and Support (TGS) over proper maintenance of

accounts and audit of the accounts of ULBs and an Annual Report prepared by the CAG shall be laid on both the Houses of State Legislature.

The State Government authorised (November 2007) the Examiner of Local Accounts (ELA) of the office of the Accountant General (Audit), Bihar to work as DLFA. Accordingly, audit of ULBs was conducted by the ELA as a primary auditor under provisions contained in Local Fund Audit Act, 1925 upto November 2016.

Further, in pursuance of the Central Finance Commission, the State Government had notified (June 2015) the establishment of Directorate of Local Fund Audit headed by the Chief Controller of Accounts-cum-DLFA under Finance Department of GoB to conduct the audit of Local Bodies and it had been functioning since 11 June 2015. Audit of ULBs was conducted by the ELA as DLFA and also by the Directorate of Local Fund Audit during 2015-16 as detailed in **Table-3.6** below;

**Table 3.6 Status of audit conducted by ELA, AG (Audit) and DLFA, GoB**

ULBs	Total No. of units	No. of units audited by ELA	No. of units audited by DLFA	No. of reports received from DLFA to AG (Audit) for guidance
<b>Municipal Corporation</b>	11	11	00	00
<b>Municipal Council</b>	42	20	06	03
<b>Nagar Panchayat</b>	88	28	01	01
<b>Total</b>	<b>141</b>	<b>59</b>	<b>07</b>	<b>04</b>

(Source: information furnished by DLFA and Inspection Reports at ELA office)

Out of total 141 ULBs in the State, the audit of the accounts of 59 ULBs<sup>42</sup> was conducted by ELA whereas, audit of seven units<sup>43</sup> of ULBs was conducted by the Directorate of Local Fund Audit during 2015-16. Out of total units of ULBs conducted by DLFA, reports of four ULBs were submitted (September 2015) to the office of ELA for guidance and comments on these reports were communicated to DLFA (December 2015).

### 3.6.2 Audit by Comptroller and Auditor General of India

The Central Finance Commission had recommended that the CAG must be entrusted with TGS over the audit of all the Local Bodies at every tier/ category and his Annual Technical Inspection Report as well as Annual Report of DLFA must be placed before both the Houses of State Legislature.

In this regard, the State Government had created (October 2013) a cell<sup>44</sup> under the Finance Department for audit of Local Bodies. Further, the State

<sup>42</sup> **Municipal Corporation (11):** Ara, Bhagalpur, Begusarai, Biharsharif, Darbhanga, Gaya, Katihar, Munger, Muzaffarpur, Patna and Purnea; **Municipal Council (20):** Araria, Bettiah, Bhabhua, Bihat, Dehri Dalmianagar, Gopalganj, Hilsa, Jamui, Khagaul, Madhepura, Madhubani, Motihari, Samastipur, Sasaram, Sheikhpura, Sitamarhi, Siwan, Sultanganj and Supaul; **Nagar Panchayat (28):** Areraj, Bakhtiyarpur, Barauli, Barhaiya, Bihiya, Bodhgaya, Chanpatiya, Daudnagar, Dhaka, Fatuha, Jhanjharpur, Joghani, Kahalgawn, Kesaria, Khusrupur, Koath, Mahnar, Mirganj, Murliganj, Nasriganj, Nirmali, Piro, Rafiganj, Rajgir, Sherghati, Silao, Sonpur and Teghra.

<sup>43</sup> **Municipal Council-** Bhabhua, Danapur, Lakhisarai, Phulwarisarif, Sasaram and Sitamarhi; **Nagar Panchayat-** Sheohar

<sup>44</sup> Comprising 39 senior auditors and one Deputy Finance Controller

Government notified (June 2015) the establishment of Directorate of Local Fund Audit for the purpose. The Finance Department, GoB intimated (December 2015) that the State Government had accepted the Standard Terms and Conditions under Regulations on Audit and Accounts, 2007 for audit of Local Bodies under TGS arrangement. Audit under TGS arrangement commenced from December 2016.

### 3.7 Response to audit observations

#### 3.7.1 Poor response to Inspection Reports

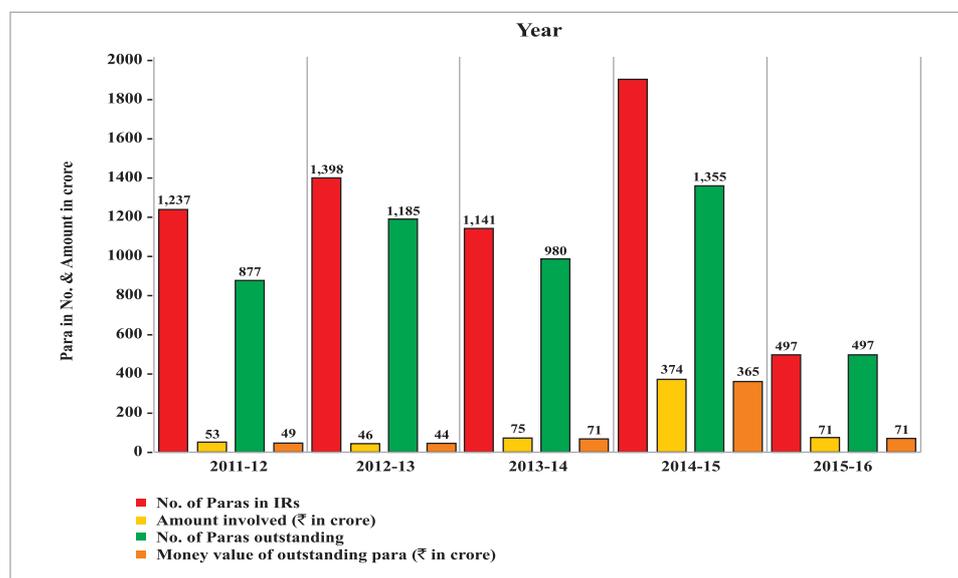
After completion of audit, Inspection Reports (IRs) containing audit findings were sent to the audited entities with a copy to the UD&HD, GoB. The Chief Executive Officer/Executive Officers of the audited entities concerned were required to respond to observations contained in the IRs and submit compliance report to the ELA within three months from the date of receipt of the IRs. The Executive Officers did not take effective steps to comply with the observations contained in the IRs which was evident from increasing number of outstanding audit paragraphs year by year. Details of paragraphs outstanding are given in **Table 3.7** and **Chart - 3.3** below:

**Table - 3.7: Outstanding audit paragraphs for the last five years (2011-16)**

Year	No. of IRs	No. of paras in IRs	Amount involved (₹ in crore)	No. of paras settled	Amount of settlement (₹ in crore)	No. of paras outstanding	Money value of paras outstanding (₹ in crore)
1	2	3	4	5	6	7 (3-5)	8 (4-6)
2011-12	43	1237	52.94	360	4.16	877	48.78
2012-13	61	1398	45.63	213	1.74	1185	43.89
2013-14	67	1141	75.35	161	4.68	980	70.67
2014-15	93	1898	373.66	543	9.04	1355	364.62
2015-16	35	497	70.91	-	-	497	70.91
<b>Total</b>	<b>299</b>	<b>6171</b>	<b>618.49</b>	<b>1277</b>	<b>19.62</b>	<b>4894</b>	<b>598.87</b>

(Source: Inspection Reports on the accounts of ULBs)

**Chart - 3.3**



It is evident from the **Table 3.7** and **Chart - 3.3** above that out of total 6,171 paragraphs contained in 299 IRs, only 1,277 paragraphs (21 per cent) were settled and 4,894 paragraphs involving ₹ 598.87 crore were remained outstanding as of 31 March 2016.

Huge outstanding paragraphs indicated lack of efforts by the authorities concerned in furnishing compliance to audit observations.

### **3.7.2 Compliance to the ELA's Annual Audit Reports**

The Finance Department, GoB constituted (March 2010) three-tier Committees – High Level, Departmental Level and District Level for review/compliance of the ELA's Annual Audit Reports. The District Level Committee<sup>45</sup> has the responsibility to ensure compliance of audit paragraphs/reports received from ULBs of that district. The Department Level Committee<sup>46</sup> has to review the status of compliance made by the District Level Committees and the High level Committee<sup>47</sup> is to meet once in six months to review the functioning of District Level and Department Level Committees.

Audit observed that only one District Level Committee meeting was held for ULBs during 2015-16. No meeting of Department Level and High Level Committee was held during 2015-16 and therefore, the purpose of constitution of these Committees was defeated and the audit observations contained in the Annual Audit Report of ELA remained unattended.

### **3.7.3 Status of Local Bodies Report**

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

For the period up to 2013-14, Annual Audit Report of the ELA on Local Bodies had been prepared and submitted to the State Government with a copy to the respective departments. Though, the Local Bodies Reports for the period 2012-13 and 2013-14 were laid before State Legislature (11 March 2016), arrangement for discussion of the reports in Public Accounts Committee (PAC) or PAC like committees was not made. The first CAG's report on Local Bodies for the year 2014-15 was laid before both the Houses of State Legislature on 4 April 2016 and GoB decided to discuss the report in PAC. As of 23 January 2017, two meetings of PAC were held (June and August 2016) to discuss the CAG's report on ULBs but no observations were settled.

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<sup>45</sup> Headed by the District Magistrate/Deputy Development Commissioner

<sup>46</sup> Headed by the Principal Secretary/Secretary of the UD&HD, GoB

<sup>47</sup> Headed by the Principal Secretary to the Finance Department, GoB and the Pr. A.G. (Audit), Bihar as a member

## Accountability Mechanism and Financial Reporting issues

### 3.8 Accountability Mechanism

#### 3.8.1 Lok Prahari (Ombudsman)

Section 44(1) of BM Act, 2007 provides for appointment of *Lok Prahari* (Ombudsman) for looking into any allegation of corruption, lack of integrity, malpractice etc., of the authorities of the ULBs. The qualification, terms and conditions and tenure of appointment and the powers and duties of the *Lok Prahari* (Ombudsman) shall be as may prescribed by the Government. The Th FC had recommended to State Governments to put in place a system of independent Local Body *Lok Prahari* (Ombudsman) as one of the eligibility criteria, to draw down its general performance grant. The *Lok Prahari* (Ombudsman) so appointed will look into complaints of corruption and maladministration against the functionaries both elected and official, and recommend suitable action. The Fifth SFC had also recommended a separate *Lok Prahari* (Ombudsman) for ULBs. But, the *Lok Prahari* (Ombudsman) had not been appointed by the UD&HD, GoB as of December 2016. The UD&HD had drafted Ombudsman Rules (combined for UD&HD and PRD) and shared with the PRD for their opinion, which was awaited for more than two years as of December 2016.

#### 3.8.2 Social Audit

The basic objective of the Social Audit is to ensure public accountability in the implementation of projects, laws and policies through public participation. The Fifth SFC recommended that Social Audit was to be conducted in ULBs as an accountability measure and Social Audit for slum and poverty alleviation programmes should be a must though the BM Act, 2007 does not provide for Social Audit in ULBs.

The Additional Secretary, UD&HD stated that system for Social Audit had not been established in ULBs till October 2016. Reasons for not establishing the system of Social Audit were not provided by the UD&HD (December 2016).

#### 3.8.3 Property Tax Board

Section 138(A) of BM Act, 2007 provides for putting in place a State level Property Tax Board for independent and transparent procedure to optimise assessment, collection and recovery of Property Tax. The Th FC had also recommended the setting up of a State level Property Tax Board to assist the ULBs to put in place an independent and transparent procedure for assessing Property Tax. Though the Bihar Property Tax Board Rules, 2013 was framed and notified (May 2013) by the UD&HD, GoB, constitution of the Board was under process (October 2016).

#### 3.8.4 Service Level Benchmarks

The Th FC recommended that the ULBs should accord priority to service delivery and put in place benchmarks for essential civic services. As part of this condition, the ULBs should notify every year, the standards to be achieved by the end of the next fiscal year and publish the same in the State Gazette.

Accordingly, GoB framed Service Level Benchmarks (SLBs) for services provided by the ULBs. Scrutiny of records of 11 Municipal Corporations (MCs) revealed that most of the MCs could not achieve the standards of SLBs. There was no achievement by five MCs in respect of sewerage treatment, less than 50 per cent coverage of toilets in seven MCs and there was less than 20 per cent achievement in respect disposal of Municipal Solid Waste (MSW) in 10 MCs. Details of standards of SLBs and its status in 11 MCs are given in (*Appendix-3.2*).

The Additional Secretary, UD&HD stated (October 2016) that it was made mandatory from January 2016 for all ULBs of the State to announce service level benchmarking with budget.

### 3.8.5 Fire Hazard Response

As per Th FC 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.

The UD&HD, GoB had notified (March 2011) the Fire Hazard Response and Mitigation Plan for Patna Municipal Corporation. But, the Plan was not put in place as of February 2016.

### 3.8.6 Submission of Utilisation Certificates

Rule 342 (1) of BFR provides that utilisation of the grants is to be submitted by the grantee entities within 18 months from the date of receipt of the grants. The instruction contained in the allotment letters of the funds released to the ULBs also required furnishing of the Utilisation Certificates (UCs) to the State Government within the prescribed period.

The UD&HD, GoB could not provide status of pending UCs, however, as per UCs compiled by the AG (A&E), the UD&HD released grants of ₹ 10261.62 crore to ULBs during 2003-15 (up to July 2015) under various assistance grant heads but, UCs of ₹ 4223.56 crore (41 per cent) were pending as of 2 February 2017. Year wise details of UCs pending are given in **Table 3.8** below:

**Table-3.8: Year wise details of UCs pending**

Year	Grants released	UCs pending	Percentage of UCs pending
2003-12	4107.71	1308.68	31.86
2012-13	1376.53	240.47	17.47
2013-14	1736.19	635.39	36.60
2014-15	2229.12	1394.67	62.57
2015-16 (Up to July 2015)	812.28	644.35	79.33
<b>Total</b>	<b>10261.62</b>	<b>4223.56</b>	<b>41.16</b>

(Source: Information provided by O/o the AG (A&E), Bihar)

UCs pending for such a long periods showed weak internal control and fraught with risk of misutilisation of funds.

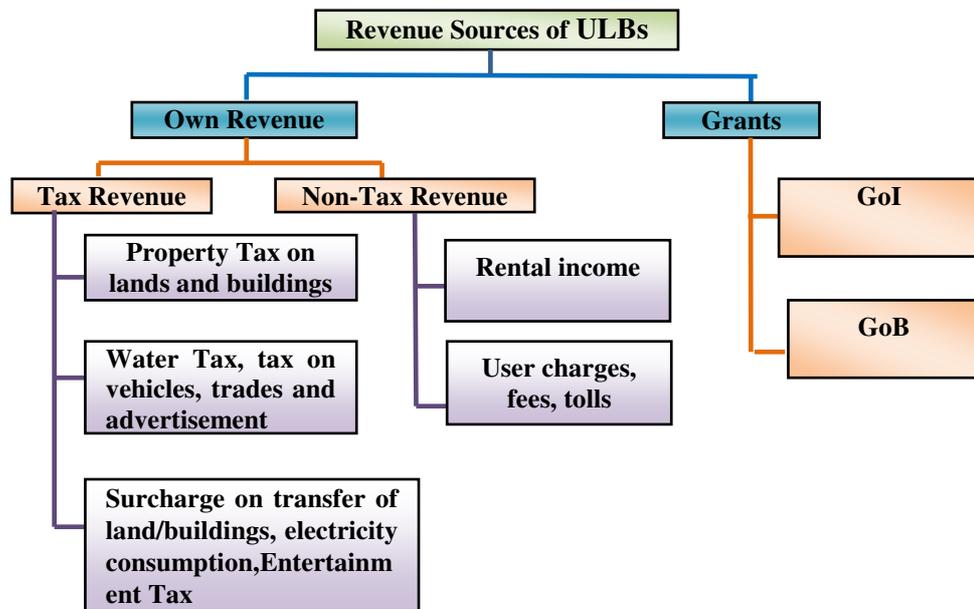
### 3.9 Financial Reporting Issues

#### 3.9.1 Source of Funds

##### 3.9.1.1 Sources of Finances

The ULBs receive funds for execution of development works from Government of India (GoI) and the State Government in the form of grants. The GoI grants include grants devolved under recommendation of the Central Finance Commission (CFC). The State Government grants are received through devolution of net proceeds of the State own tax revenue on recommendations of the State Finance Commission (SFC) and grants for implementation of State Sponsored Schemes. Besides, the ULBs had their own sources of funds (tax and non-tax revenue). The Property Tax on lands and buildings is mainstay of ULBs' own revenue. Sources of finances of ULBs are shown in **Chart 3.4** below:

**Chart - 3.4: Source of Funds**



(Source: Section 127 of BM Act, 2007)

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

The budget provisions made by the State Government to ULBs including State share towards GoI Schemes and grants received under recommendations of CFCs for the year 2011-16 are given in **Table 3.9** below:

**Table-3.9: Budget allocation vis-à-vis expenditure***(₹ in crore)*

Sl. No.	Particulars	Head	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	1	2	3	4	5	6	7	8 (3 to 7)
1.	Budgetary Allocation	Revenue	1374.83	1668.44	2537.40	3300.59	3111.15	11992.41
		Capital	7.00	2.00	1.00	1.00	37.73	48.73
		<b>Total</b>	<b>1381.83</b>	<b>1670.44</b>	<b>2538.40</b>	<b>3301.59</b>	<b>3148.88</b>	<b>12041.14</b>
2.	Expenditure	Revenue	661.37	1263.72	1717.44	1778.46	1977.47	7398.46
		Capital	0	2.00	1.00	0	0	3.00
		<b>Total</b>	<b>661.37</b>	<b>1265.72</b>	<b>1718.44</b>	<b>1778.46</b>	<b>1977.47</b>	<b>7401.46</b>
3.	Saving (1-2)		<b>720.46</b>	<b>404.72</b>	<b>819.96</b>	<b>1523.13</b>	<b>1171.41</b>	<b>4639.68</b>
4.	Percentage of saving		<b>52</b>	<b>24</b>	<b>32</b>	<b>46</b>	<b>37</b>	<b>39</b>

*(Source: Appropriation Accounts of Government of Bihar)*

It is evident from **Table 3.9** above that the UD&HD could not utilise budgetary allocation fully and percentage of saving ranged between 24 per cent and 52 per cent during 2011-16. Total allocation under Capital head was less than one per cent of the total allocation during 2011-16 while capital expenditure during 2011-12, 2014-15 and 2015-16 were nil.

### 3.9.1.3 Receipts and expenditure of grants by ULBs

The consolidated position of receipts and expenditure of grants by ULBs under various schemes were not provided by UD&HD. However, as per information furnished by the Support Programme for Urban Reforms (SPUR)<sup>48</sup> under UD&HD, status of grants received and expenditure in 28 ULBs<sup>49</sup> for which accounts were maintained by SPUR during the years 2012-16 is shown in **Table 3.10** below whereas, details are given in **(Appendix-3.3)**.

**Table - 3.10: Receipt and Expenditure of 28 ULBs***(₹ in crore)*

Particulars	2012-13	2013-14	2014-15	2015-16
<b>1. Opening Balance</b>	330.98	430.08	641.89	835.84
<b>2. Receipts</b>	300.79	444.33	735.17	667.33
<b>3. Fund available (1+2)</b>	631.77	874.41	1377.06	1503.15
<b>4. Expenditure</b>	201.66	296.60	589.40	574.31
<b>5. Percentage of Utilisation</b>	32	34	43	38

*(Source: Data provided by SPUR, UD&HD)*

The above position indicates that only 32 to 43 per cent of available funds were utilised during 2012-16. The UD&HD did not provide figure of funds available/released and utilisation thereof in respect of other ULBs.

<sup>48</sup> A GoB initiative funded by the United Kingdom's Department For International Development (DFID) to provide financial, technical and managerial support to enhance efficacy of ULBs.

<sup>49</sup> Ara, Aurangabad, Begusarai, Bettiah, Bhagalpur, Biharsharif, Bodhgaya, Chhapra, Danapur, Darbhanga, Dehri, Gaya, Hajipur, Jamalpur, Katihar, Khagaul, Kishanganj, Motihari, Munger, Muzaffarpur, Nawada, Patna, Phulwarisharif, Purnea, Saharsa, Sasaram, Sitamarhi and Siwan

### 3.9.2 Centrally/State Sponsored Schemes

GoB received grants from GoI for execution of Centrally Sponsored Schemes viz., *Rajiv Awaas Yojana* (RAY), Integrated Housing and Slum Development Programme (IHSDP), Water Supply (State Plan) and *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY)/National Urban Livelihoods Mission (NULM). However, the percentage of utilisation of grants ranged between 65 per cent and 92 per cent as detailed in **Table 3.11** given below:

**Table-3.11: Receipt and Expenditure of Centrally/State Sponsored Scheme**

(₹ in crore)

Scheme	2011-12		2012-13		2013-14		2014-15		2015-16		Total		Utilisation (%)
	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	Receipt	Exp.	
RAY*	--	--	--	--	--	--	149.15	0.67	--	96.93	149.15	97.60	65.43
IHSDP	47.11	-	227.55	9.46	44.33	70.85	--	185.43	117.73	137.61	436.72	403.35	92.35
Water Supply (State Plan)	63.27	61.39	34.87	30.83	235.00	182.76	200	168.46	154.50	142.18	687.64	585.62	85.16
SJSRY	47.76 <sup>#</sup>	6.05	35.81	61.70	29.38	2.52	1.99	19.55	--	--	114.94	89.82	78.14
NULM	--	--	--	--	--	--	--	--	50.71 <sup>**</sup>	34.44	50.71	34.44	67.91

(Source: Data provided by UD&HD, GoB)

<sup>#</sup> including OB of ₹45.66 crore;

\* *Rajeev Awaas Yojana* launched in 2014-15;

\*\* ₹ 50.71 crore includes OB of ₹ 25.12 crore transferred from SJSRY. SJSRY renamed as NULM from September 2013 but grants were released for NULM from 2015-16.

Audit further observed that grants under RAY amounting to ₹ 149.15 crore was released on 20 November 2014 but only 65.43 per cent of the grants was utilised as of August 2016.

### 3.9.3 State Finance Commission (SFC)

GoB constituted (December 2013) the Fifth SFC for the period 2015-20 in pursuance of the Article 243-Y read with Article 243-I and Section 71 of BM Act, 2007 to review the financial position of Local Bodies and to recommend the principles to govern the distribution of net proceeds of taxes, duties etc., between the State and the Local Bodies. Though the report of the Commission was due on 31 March 2015, it was however submitted in February 2016. Consequently, the State Government had decided to implement the recommendations of the Fifth SFC from the year 2015-16 with some minor amendments in the recommendations vide details in (**Appendix - 3.4**).

Though the amount of share of ULBs in State Own Tax Revenue and grants for the year 2015-16 were to be released in toto, GoB released grant of ₹ 434.64 crore only against entitled amount of ₹ 781.32 crore for the year 2015-16 at the fag end of the financial year (21 March 2016). The first instalment for the year 2016-17 amounting to ₹ 462.93 crore was released in October 2016, though it was due in May 2016 while second instalment was not released (February 2017) to ULBs in want of Utilisation certificates of grants released as first instalment.

### 3.9.4 Maintenance of records

Rules 12, 69, 84 and 103 of Bihar Municipal Accounting Rules, 2014 prescribe maintenance of basic records, registers for transparency, accountability and proper watch.

Scrutiny of records (2015-16) revealed that 15 test checked ULBs did not maintain<sup>50</sup> key records viz., Accountant Cash Book, Grant Register, Asset Register and Stock Register. Executive Officers of the ULBs concerned replied that the records would be maintained in future.

### 3.9.5 Maintenance of Accounts by ULBs

The Ministry of Urban Development, GoI in consultation with the CAG prepared (2004) the National Municipal Accounts Manual for maintenance of accounts on accrual basis by the ULBs. Section 86, 87 & 88 of the BMA, 2007 also stipulate that the State Government shall prepare a Bihar Municipal Accounting Manual for implementation of accrual based Double Entry Accounting System and the Chief Municipal Officer shall within four months of the close of a year, cause to prepare a financial statements consisting of a Fund Flow Statement, an Income and Expenditure Account, Receipt and Expenditure Account and a Balance Sheet for preceding year.

The UD&HD approved and notified Bihar Municipal Accounting Manual (21 March 2016) after nine years of enactment of BM Act, 2007. It was observed that 13 test checked ULBs<sup>51</sup> did not prepare the financial statements for the period 2012-16 (*Appendix-3.5*). The Executive Officers of the ULBs concerned replied that the financial statements would be prepared in future.

The UD&HD notified (January 2014) the 'Bihar Municipal Accounting Rules, 2014' for preparation and maintenance of financial statements on accrual based Double Entry System in the municipalities (1 April 2014).

However, The Additional Secretary, UD&HD stated (October 2016) that the ULBs were maintaining their accounts on both of the single entry and double entry system in parallel and as soon as the new Double Entry Accounting System is migrated in all aspect and runs smoothly, the old accounting system would be discontinued.

<sup>50</sup> *Accountant Cash Book-Nagar Parishad Barh and Saharsa; Nagar Panchayat Barbigha and Bikramganj Grant Register-Nagar Parishad Barh and Motihari; Nagar Panchayat Barbigha, Beerpur, Bikarmganj, Kataiya, Makhdumpur, Nokha Asset Register-Nagar Parishad Barh, Hajipur and Nawada; Nagar Panchayat Bikramganj, Kanti, Kataiya, Makhdumpur, Motipur, Nokha, Sahebganj Stock Register-Nagar Parishad Barh and Dumaron; Nagar Panchayat Kataiya.*

<sup>51</sup> *Nagar Parishad - Dumraon, Mokama , Nawada and Saharsa Nagar Panchayat - Amarpur, Barbigha, Kanti, Katiaya, Makhdumpur, Nawgachhiya, Nokha, Bikram and Bikramganj*

### **3.9.6 Impact of Audit**

In respect of 13 audit observations relating to six ULBs<sup>52</sup> issued during June 2015 to February 2016, ₹ 33.69 lakh collected on account of Holding Tax and miscellaneous receipts by the municipal staff was not deposited into account of ULBs, the same was deposited by the person(s) concerned in course of audit.

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<sup>52</sup> *Barauli (₹ 3.75 lakh), Bhabhua (₹ 0.21 lakh), Hilsa (₹ 0.50 lakh), Khagaul (₹ 2.51 lakh), Sheikhpura (₹ 3.39 lakh) and Siwan (₹ 23.33 lakh).*