Executive Summary

Background

With an aim to restructuring of public finances, restoring budgetary balances and achieving macro economic stability, Twelfth Finance Commission (TFC) recommended that each State must enact a fiscal responsibility legislation for eliminating the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. In West Bengal, however, Fiscal Responsibility and Budget Management (FRBM) Act has not yet been enacted. In the absence of FRBM Act, there were no statutory bindings on the Government to achieve the fiscal targets. Revenue Deficit, which was to be eliminated by 2008 09, stood at Rs 14709 crore. Fiscal deficit was also higher than the normative target fixed by the TFC. Besides, enactment of the said legislation was made a necessary pre-condition for accrual of debt relief on outstanding GoI loans. Owing to non-enactment of the legislation the State could not avail of total financial benefit of Rs 494.24 crore during 2008-09 towards reduction in annual instalment of GoI loans and waiver of interest.

C&AG's Reports have been analysing Government Finances for over three years since TFC gave its recommendation. Since these comments formed part of the civil audit report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The inevitable fallout of this well intentioned but all inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to centre stage once again, a stand alone report on State Government finances is considered appropriate. Accordingly, from the report year 2009 onwards, C&AG has decided to bring out a separate volume titled "Report on State Finances."

The Report

Based on the audited accounts of the Government of West Bengal for the year ended March 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of West Bengal Government's fiscal position as on 31 March 2009. It provides an insight into trends in committed expenditure, borrowing patterns besides a brief account of central funds transferred directly to the State implementing Agencies through off budget route.

Chapter 2 is based on Appropriation Accounts and gives the grant by grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of West Bengal Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Greater prioritization for Capital expenditure: The State may consider enhancing the priority it assigns to capital expenditure. During last five years, as a proportion of aggregate expenditure, capital expenditure was a meager five to seven per cent, which was substantially lower as compared to the all states' average (Table 1.6 and 1.9A)

Review of State Government Investments: The average return on West Bengal Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.01 and 0.07 per cent while Government paid interest at the average rate of 9.02 to 10.08 per cent on its borrowings during 2004 09 (para 1.6.3). It would be desirable that the State Government ensures better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Only those projects, which are justified on account of low financial but high socio-economic return, may be identified and prioritized.

Monitoring over funds transferred directly from the Government of India to the state implementing agencies: As these funds remain outside the State budget, there is no single agency monitoring its use. Resultantly, no consolidated data is available as to the quantum of such funds actually available/spent in centrally sponsored schemes directly funded by the Central Government. A system has to be in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as Office of the Accountant General.

Debt sustainability: State Government should endeavour to maintain debt GSDP ratio in such a manner that incremental non debt receipts becomes adequate to cover the incremental interest burden. Otherwise, debt receipt would continue to be used mostly in debt redemption with quantum of borrowed fund reduced for operational purposes including less expenditure being incurred in capital sector (para 1.8). As revealed from the maturity profile of outstanding debt (Table 1.21), 90 per cent of the debt liability will have to be settled in two to seven years. This calls for a careful strategy to redeem the debt without either resorting to very high borrowings or cutting down operational expenditure.

Financial management and budgetary control: During 2008-09 there were overall savings of Rs 2875.96 crore, which was the result of saving of Rs 3581.85 crore offset by the excess of Rs 705.89 crore. The excess expenditure of Rs 705.89 crore required regularisation (para 2.2) under Article 205 of the Constitution of India. As of September 2009, total un-regularized excess expenditure pertaining to the years 2003 2008 stood at Rs 28200.65 crore (para 2.3.6). It was also noticed that during 2008-09, expenditure of Rs 1332.10 crore was incurred in 32 cases without any provision in the original estimates/supplementary demand and without any re-appropriation orders to this effect (para 2.3.4). There were also instances of inadequate provision of funds and unnecessary/excessive re appropriations. Besides, there was a rush of expenditure at the end of the year. In many cases, the anticipated savings were not surrendered leaving no scope for utilising these funds for other development purposes. Detailed bills were not submitted for large amount of advances drawn on Abstract Contingent bills (para 2.4.1). Total amounts remaining parked in Personal Ledger Accounts of the State increased from Rs 743.95 crore as of March 2005 to Rs 1697.48 crore as of March 2009 (para 2.5). Of these 105 accounts, 45 accounts were not operated during 2008-09. The Finance Department should monitor observance of financial discipline and budgetary control and take necessary steps to arrest cases of non-surrendering of anticipated savings and persistent savings and excesses. Steps also are to be taken for adjustment of outstanding AC bills and closure of inoperative PL Accounts in a time bound manner.

Financial reporting: Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance contribute to a sound internal financial discipline. The desired level of compliance was, however, absent in many spheres as would be evident from non-submission of utilisation certificates for years together (para 3.1), non-submission of annual accounts of Autonomous Bodies/Authorities, delays in preparation of pro forma accounts of departmental undertakings performing quasi commercial activities (para 3.4). There were also delays in presentation of Separate Audit Reports in the State Legislature (para 3.3). Concerned Departments should take immediate steps for submission of outstanding accounts of autonomous bodies without further delay and for timely placement of Separate Audit Reports in the State Legislature.