EXECUTIVE SUMMARY


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Background

In response to the Twelfth Finance Commission's recommendations, the Bihar Government enacted its Fiscal Responsibilities and Budget Management (FRBM) Act, entitled the Bihar Fiscal Responsibility and Budget Management (FRBM) Act, 2006. The main purpose of this Act was to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium-term fiscal framework. The State Government's commitment to carry forward these reforms is largely reflected in the policy initiatives announced in its subsequent budgets. Since its enactment, the benefits of FRBM legislation have been realised to a great extent as exemplified by the fact that the State Government had revenue surplus and the fiscal deficit was well within three *per cent* of the Gross State Domestic Product (GSDP), except during the current year when it was also within the revised estimate.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability as is evident from the year-on-year data on the State finances. This data, however, does not give a holistic picture of the status of financial management including the debt position, off-budget liabilities, cash management etc. for the benefit of the State Legislature and other stakeholders.

The Report

Based on the audited accounts of the Government of Bihar for the year ending March 2010, this Report provides an analytical review of the Annual Accounts of the State Government and is structured in three Chapters.

Chapter-1 is based on the audit of Finance Accounts and makes an assessment of the Government's fiscal position as of 31 March 2010. It provides an insight into the trends of committed expenditure and borrowing pattern and gives a brief account of the Central funds transferred directly to state implementing agencies through the off-budget route.

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

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

Audit findings and recommendations

Fiscal discipline: The fiscal position of the State viewed in terms of trends in deficit indicators revealed deterioration in 2009-10 compared to 2007-08 and 2008-09. Although the State maintained a revenue surplus during these years and had already achieved the Twelfth Finance Commission recommendation of eliminating revenue deficit, there was a decrease in the revenue surplus during the current year. The fiscal deficit which was well within three *per cent* of the Gross State Domestic Product (GSDP) increased to 3.40 *per cent* during the year, which too was within the revised recommendation of 3.5 *per cent*.

Need to reduce Non-Plan expenditure: The revenue expenditure was 80 *per cent* of the total expenditure, of which 74 *per cent* was under the Non-Plan head. This included expenditure on salaries, pension payments, interest liabilities and subsidies, which constituted 77 *per cent* of Non-Plan Revenue Expenditure (NPRE).

Review of Government investment: The average return on the Government's investments in statutory corporations, Government companies, co-operative banks and societies varied between 0.24 to 0.38 *per cent* during the last three years, while the Government paid average interest on borrowings at rates ranging from 6.48 to 7.93 *per cent*. This was obviously an unsustainable proposition. The Government should, therefore, initiate steps to seek better value for money in its investments. Otherwise, the high cost of borrowed funds invested in projects with low financial returns, will continue to strain the economy.

Increasing fiscal liabilities accompanied by negligible rates of return on Government investment and inadequate interest cost recovery on loans and advances might result in a situation of unsustainable debt in the medium to long term unless suitable measures are initiated to reduce the Non-Plan revenue expenditure and to mobilize additional resources, through tax and non-tax sources.

Financial management and budgetary control: During 2009-10, there was an overall savings of ₹ 10546 crore, which was a result of the total savings of ₹ 10644 crore, being offset by excess expenditure of ₹ 98 crore. This excess expenditure requires regularization under Article 205 of the Constitution of India. Audit scrutiny also revealed instances where the amounts surrendered were in excess of the actual savings, indicating lack of or inadequate budgetary control. As against savings of ₹ 462 crore in eight cases, the total amount surrendered was ₹ 483 crore, resulting in excess surrender of ₹ 21 crore. There were 25 grants/appropriations in which savings of ₹ 5861 crore occurred but ₹ 3182 crore (54.30 *per cent* of savings) was not surrendered by the concerned departments. Similarly, in 43 cases, savings of ₹ 6063 crore were surrendered on the last two working days of March 2 010. Excess expenditure of ₹ 7081 crore was pending regularization from 1977 to 2009. There was 100 *per cent* surrender of funds amounting to ₹ 522 crore in 69 schemes. Hence, it is essential that the State Government must strengthen its budgetary controls to avoid such deficiencies in financial management. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Rush of expenditure in the last month of the financial year 2009-10, in 18 major heads, amounted to 67 *per cent* of the total expenditure.

Financial Reporting: The State Government's compliance with various rules, procedures and directives was not satisfactory, as indicated by the huge pendency of utilization certificates for grants given to various institutions. The Government provided grants-in-aid to various bodies and institutions without ensuring proper utilization for the intended purposes. It is recommended that to improve accountability and transparency, grants should not be provided to institutions which fail to submit utilization certificates within the stipulated time. The huge pendency of DC bills is another major issue before the State Government which must initiate strong measures to ensure timely submission of the same and take effective steps to settle all outstanding DC bills.

Since departmental commercial undertakings are not finalising and submitting their yearly proforma accounts, the State Government must direct them to submit their accounts on a regular and timely basis. Operation of the Minor Head, 800– Other Expenditure/Receipt should be avoided in future so that actual reflection under the concerned Major Heads may appear in the accounts. Several instances of losses and misappropriation were also noticed and the Government should ensure timely follow up action on all these cases.