Executive Summary

Background

This Report on the finances of the Government of Bihar intends to objectively assess the financial performance of the State during 2010-11 and to provide the State Government and the State Legislature with proper inputs based on audit analysis of financial data. In order to put this analysis in a proper perspective, a broad comparison of targets envisaged by the Bihar Fiscal Responsibilities and Budget Management (FRBM) Amendment Act, 2010, the Thirteenth Finance Commission (ThFC) Report and the Budget Estimates of 2010-11 has been attempted.

The Report

Based on the audited accounts of the Government of Bihar for the year ended March 2011, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter-1 is based on the audit of the Finance Accounts and makes an assessment of the Bihar Government's fiscal position as on 31 March 2011. It provides an insight into trends in committed expenditure and borrowing patterns besides giving a brief account of 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 grant-wise descriptions of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter-3 is an inventory of the Bihar Government's compliance with various reporting requirements and financial rules. The report also compiles the data collected from various Government departments/organisations in support of the findings.

Audit findings and recommendations

Chapter I

Revenue Receipts: The growth of revenue receipts during the year was 25 *per cen*t over the previous year, mainly due to increase in the State's own tax revenue/share of Union taxes/duties and grants from the Government of India (GOI) over the previous year. The Government succeeded in maintaining a revenue surplus during 2006-11. It had already achieved the ThFC recommendation of eliminating the revenue deficit. There was also an increase in the revenue surplus during the current year. The fiscal deficit to GSDP ratio of the State was 1.86 *per cent* during the current year, which was within the recommendation (3.5 *per cent*) of ThFC.

Interest payments: Interest payments (₹4319 crore), which increased by 17 *per cent* during the year over 2009-10, were within the projections made in the Budget Estimates (₹ 4513 crore) and the assessment of ThFC (₹ 4439 crore).

Revenue Expenditure: The revenue expenditure (RE) increased by 17 *per cent* over the previous year and constituted 79 *per cent* of the total expenditure during 2010-11 with Non-Plan Revenue Expenditure (NPRE) constituting 71 *per cent* of revenue expenditure. The NPRE increased by 13 *per cent* over the previous year and remained within the Budget Estimate (₹ 29683 crore) of the current year. The increase in NPRE was mainly due to increase in committed expenditure under salaries, pension, interest payments and subsidies.

Government may also consider reduction in subsidy payment to Public Sector Undertakings (PSUs) etc. for boosting their operational efficiency. As per the ThFC Report, all States were required to draw up a roadmap for winding up of non-working PSUs by March 2011.

Capital Expenditure: The Capital Expenditure (CE) of the State increased by *25 per cent* over the previous year.

Incomplete projects: Funds aggregating ₹1005 crore were blocked in 350 incomplete projects as at the end of 2010-11.Time and cost overruns of these incomplete projects needed to be reduced so as to ensure value for money for the people of Bihar.

Review of Government investments: The average return on the Government's investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives varied between zero and 0.28 *per cent* in the past five years, whereas its average interest outgo was in the range of 7.15 to 6.87 *per cent*. This is an unsustainable proposition.

The Government should, therefore, seek better value for money in investments as otherwise, high-cost borrowed funds invested in projects with low financial returns will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritised with full justification for the high-cost borrowings. Time has come to review the working of State-owned PSUs incurring huge losses and work out either a revival strategy for those that are strategic in nature and can be made viable or close down the sick units by disinvesting their equity.

Position of Cash Balance: The cash balance at the end of the year increased by 19 *per cent* over the previous year. Since, maintaining an idle cash balance is not a prudent cash management practice, a shelf of projects should be kept ready with their techno-economic feasibility appraisals completed and approved so that the mismatch between the timing of borrowing and channeling these funds towards productive investment is considerably reduced.

Oversight of funds transferred directly from the Government of India to the State implementing agencies: The Government of India (GOI) directly transferred ₹ 10309 crore to State implementing agencies during the year, which was an increase of ₹ 5127 crore (99 *per cent*) over the previous year. As the funds were not routed through the Government accounts, the direct transfer of funds from GOI to the State implementing agencies ran the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation was not in place. Timely reporting about the status of expenditure by the Government should ensure proper accounting of the funds transferred to the State implementing agencies and the updated information should be validated by the State Government as well as the Accountant General (A&E), Bihar, for proper monitoring of the expenditure incurred by the implementing agencies.

Chapter II

Financial Management and Budgetary Control: Slow progress in implementing of various social and development programmes in the State left overall savings of ₹ 14474 crore, even after offsetting of excess over the budget allocations of ₹ 273.71 crore. The excess expenditure required regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary or excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or were surrendered on the last two days of the financial year, leaving no scope for utilizing these funds for other developmental purposes.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/surrender orders should be avoided. The department should submit realistic budget estimates, keeping in view the trends in expenditure and the actual requirement of funds. The controlling officers should closely monitor the expenditure against the allocations to avoid excess expenditure over the grants.

Chapter III

Financial Reporting: The Government's compliance with various rules, procedures and directives was lacking in various departments, which was evident from delays in furnishing of utilisation certificates against loans and grants by various grantee institutions. There were instances of losses and misappropriations for which departmental action was pending for long periods. Departmental inquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.

Substantial amounts of receipts and expenditure were classified under the omnibus Minor Head '800-Other Receipts/Expenditure' during 2010-11, which should be avoided for greater transparency in financial reporting. The Controlling Officers did not submit the Detailed Contingent bills against the advances drawn on Abstract Contingent bills up to 31 March 2011. The issue of non-reconciliation of expenditure figures persisted during this period despite the same being regularly pointed out in the Audit Reports the Comptroller and Auditor General of India. In order to rectify this situation, a rigorous monitoring mechanism should be put in place by the DDO's to ensure adjustment of the Abstract Contingent bills within the stipulated period.