

# Executive Summary

## Background

In response to the Twelfth Finance Commission's recommendation, the Government of Jharkhand enacted the Fiscal Responsibility and Budget Management (FRBM) Act in May 2007, with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal deficit, 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 the subsequent budgets. The benefits of FRBM legislation have been realised to some extent in terms of reduction in major deficit indicators. The State Government's resolve to implement value added tax (VAT), introduction of the New Pension Scheme and a host of other institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and promoting fiscal stability.

The State Government is in the process of establishing an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of data on State Finances. This data, however, does not give the big 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 Jharkhand for the year ending March 2010, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

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

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

**Chapter III** is an inventory of the Jharkhand 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

**Fiscal discipline:** Against an estimated target of revenue surplus of ₹ 2799 crore set in the Fiscal Correction Path (FCP) and revised in the Mid-Term

Fiscal Plan (MTFP) 2010-11 as ₹ 2614 crore, the financial year ended with a revenue deficit of ₹ 10 crore.

**Decrease in capital expenditure:** Though the percentage of capital expenditure to the total expenditure remained more or less constant (19 *per cent*) during 2007-08 and 2008-09, it decreased to 15 *per cent* in 2009-10 over the previous year. The capital expenditure was 3.25 *per cent* of GSDP and was slightly higher than the TFC assessment of three *per cent* for 2009-10. However, it was significantly low in comparison to the projection made in MTFP 2010-11 (5.40 *per cent*).

**Thrust to development and social sector expenditure:** The growth rate of developmental revenue expenditure decreased sharply from 27 *per cent* in 2008-09 to eight *per cent* in 2009-10, whereas, the growth rate of developmental capital expenditure decreased from 16 *per cent* in 2008-09 to (-)10 *per cent* in 2009-10. Developmental loans and advances decreased from ₹ 586 crore in 2007-08 to ₹411 crore in 2008-09, which further decreased to ₹ 308 crore in 2009-10.

**Review of Government investments:** The Government had invested ₹ 128.73 crore as of 31 March 2010 in Government companies, co-operatives, banks and societies since the inception of the new State. The return on these investment was reported to be 'nil' during the last five years, while the Government paid an average interest rate of 7.83 *per cent* on its borrowings during 2005-10.

**Debt sustainability:** The quantum spread together with the primary deficit, had been fluctuating during 2005-10. It was negative during the period except during 2006-07. The quantum spread, together with the primary deficit, decreased from (-) 1011 in 2008-09 to (-) 535 during 2009-10, which was indicative of a fall in the debt-GSDP ratio, leading the State to a debt sustainable position.

**Financial management and budgetary control:** During 2009-10, there was an overall saving of ₹ 6279.97 crore, which was the result of savings of ₹ 4656.17 crore in 46 grants and five appropriations under the Revenue Section and savings of ₹ 1740.51 crore in 25 grants under the Capital Section offset by excess of ₹ 116.71 crore in one grant and one appropriation under the Capital Section. This excess required regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary/ excessive re-appropriations. Rush of expenditure at the end of the year was a chronic feature noticed in the overall financial management. In many cases, the anticipated savings were either not surrendered or surrendered on the last day of the year, leaving no scope for utilisation of these funds for other development purposes.

**Outstanding Detailed Contingent Bills:** Detailed Contingent Bills for ₹ 6366 crore were to be submitted as on 13 October 2010 against \Abstract Contingent Bills for ₹ 11131 crore.

**Non-closure of Personal Deposit Accounts:** Personal Deposit Accounts are required to be closed at the end of the financial year but were not closed and had balances of ₹ 69.28 crore at the end of the year.

**Non-reconciliation of expenditure:** Expenditure of ₹ 14975.52 crore was not reconciled by the Controlling Officers of different departments with the books of the Accountant General (A & E) during the year.

**Review of Grant No. 42- Rural Development Department:** The department had persistent savings during the last five years, which indicated failure of budgetary control and preparation of budget without ascertaining the actual requirements.

**Financial reporting:** The State Government's compliance with various rules, procedures and directives was inadequate which was evident from the non-submission of 2802 utilisation certificates amounting to ₹ 3920.49 crore against loans and grants received by departmental undertakings/institutions up to 2008-09. Submission of Annual Accounts was delayed in the case of 60 autonomous bodies and departmental undertakings. Out of grants-in-aid amounting to ₹2332.94 crore paid out from the Consolidated Fund of the State, a sum of ₹934.64 crore was drawn by the officers of Government departments, instead of payment to the grantee body directly. Internal controls in all the organisations should be strengthened to prevent such cases in future.