EXECUTIVE SUMMARY

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Fiscal situation of the State

Revenue receipts, revenue expenditure and capital expenditure have increased in 2017-18 compared to 2013-14. After accounting for inflation (at constant price), their rate of growth reduced in 2017-18 except revenue receipts. The rate of growth of capital formation, in particular, was significantly lower than previous year.

(Paragraph 1.1.1)

The State has achieved the target of revenue surplus but not of ratio of outstanding debt to GSDP. The target of fiscal deficit as envisaged in XIV FC and BFRBM Act was achieved but not as envisaged in budget estimates.

(Paragraph 1.1.2)

The primary deficit of the State has increased from ₹ 2,892 crore in 2013-14 to ₹ 5,251 crore in 2017-18 indicating that non-debt receipts were insufficient to meet the primary expenditure of the State as well as to meet Interest Payment.

(Paragraph 1.1.2.2)

Resource mobilisation

Revenue receipts in 2017-18 grew by ₹ 11,862 crore (11 *per cent*) over 2016-17, but were lower than the budget estimates by ₹ 19,711 crore.

Revenue expenditure in 2017-18 increased by ₹ 7,859 crore (eight *per cent*) over 2016-17, but was lower than the budget estimates by ₹ 19,979 crore.

Capital expenditure in 2017-18 increased by ₹ 1,699 crore (six *per cent*) over 2016-17, but was lower than the budget estimates by ₹ 3,289 crore.

Recommendation: *The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between budget estimates and actuals is bridged.*

(Paragraphs 1.1.1 and 1.1.3)

Summary of important audit findings and recommendations:

Grants-in-aid

The increase in Grants-in-aid by ₹ 5,161.11 crore in 2017-18 over the previous year was mainly due to compensation given for loss of revenue arising out of implementation of GST (₹ 3,041 crore).

(Paragraph 1.2.2.4)

Committed expenditure

Committed expenditure of the Government under Revenue head mainly consisted of expenditure on salaries and wages (₹ 17,778.74 crore), pensions (₹ 14,293.48 crore) interest payments (₹ 9,053.78 crore), and subsidies (₹ 5,023.06 crore). Committed expenditure

(₹ 46,149.06 crore) constituted a major component of revenue expenditure and consumed 69.22 *per cent* of the establishment and committed revenue expenditure (₹ 66,673 crore).

(Paragraph 1.3.4)

National Pension System (NPS)

Scrutiny of VLC data revealed that against the total contribution of ₹ 3,891.21 crore for the period 2005-06 to 2017-18, only ₹ 3,762.93 crore was transferred to NSDL, leaving balance of ₹ 128.28 core (₹ 41.32 crore and ₹ 86.96 crore under the Major heads 8011 and 8342 respectively) to be transferred to NSDL for further investment as per provisions of the scheme. Thus, the current liability stands deferred to future years.

Scrutiny of records of Finance Department revealed that interest on contributions hasn't been computed by the GoB. Besides, as per finance accounts, interest hasn't been paid/ transferred by the GoB under head 2049-03-117-0001 till the end of the year 2017-18. Thus, the State Government has incorrectly used the funds that belongs to its employees, leading to a possible uncertainty in the rate of return to the employee/avoidable financial liability to the Government, and thus failure of the scheme itself.

Recommendation: *The State Government should initiate action immediately to ensure that employees recruited on or after 1 September 2005 are fully covered under the National Pension System from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL in a timely manner.*

(Paragraph 1.3.4.1)

Adequacy of public expenditure

The ratio of development expenditure, social services expenditure, capital expenditure and education services to aggregate expenditure was higher than the average for the General Category States. However, the share of education in aggregate expenditure dropped in 2017-18 over the four year period, while the share of health to aggregate expenditure is less than the average for General category states.

(Paragraph 1.3.5.1)

Incomplete projects

Out of the 127 projects with estimated cost of ₹ 1,819.64 crore due for completion during 2011-12 to 2017-18, costs were revised only for three projects. Details of the remaining 124 projects with estimated cost of ₹ 1,798.64 crore were not furnished by the departments.

Recommendation: *The Finance Department and the concerned departments may evolve a mechanism to ensure timely completion of projects. The revised estimates of all the incomplete projects should be prepared and approved on priority so as to have a realistic assessment of the funds required to complete these projects.*

(Paragraph 1.4.2)

Returns on investments

During 2013-18, the State Government incurred a notional loss of ₹ 3,479.32 crore on account of difference between the Government's borrowing cost and the return on investment in various entities.

Recommendation: *The Finance Department and the concerned administrative departments should review investment to entities whose financial performance does not even meet the borrowing cost of capital. In any event, no investment should be made or loans extended to entities whose accounts were in arrears.*

(Paragraph 1.4.3)

Loans and Advances by the State Government

The interest in arrears on loans and advances to various entities has increased over the years and was ₹ 7,823.47 crore as of 31 March 2018.

Recommendation: *The Finance Department and the concerned administrative departments should consider initiating action to restructure loans and advances made to entities that have not repaid the principal or even paid interest for the past several years.*

(Paragraph 1.4.4)

Transactions under Reserve Funds

As per the Finance Accounts, the State Government operates six Reserve Funds. There were no transactions under four Reserve Funds *viz*., Depreciation/Renewal Reserve Funds, Famine Relief Fund, Development and Welfare Funds, General and Other Reserve Funds for the past 17 to 18 years.

Recommendation: *The Finance Department and the concerned administrative departments should review and close all Reserve funds which have had no transactions for the past several years.*

(Paragraph 1.5.2)

Sinking Fund

The XII Finance Commission had recommended that States should set up Sinking Funds for amortisation of all loans including loans from banks, liabilities on account on National small savings fund, etc., and that these funds should not be used for any other purpose, except for redemption of loans. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 *per cent* of outstanding liabilities at the beginning of the year. The State government set up a consolidated sinking fund in 2008-09 which was only for amortisation of market loans, however from 2014-15, it was to be utilized for redemption of the outstanding liabilities of the government. The closing balance of the fund as on 31 March 2018 was ₹ 4,111.24 crore.

(Paragraph 1.5.2.1)

State Disaster Response Fund (SDRF)

The opening balance of the fund as on 1 April 2017 was ₹ 696.39 crore. During the year, ₹ 721.32 crore was received and an expenditure of ₹ 1,417.71 crore was incurred on natural calamities leaving a balance of rupees six thousand in the fund as on 31 March 2018.

(Paragraph 1.5.2.2)

Status of Guarantees

The State Government has not created a Guarantee Redemption Fund in terms of the recommendations of the XII Finance Commission or framed any rules for fixing a ceiling on guarantees.

(Paragraph 1.5.3)

Net funds available on account of public debt and public account liabilities

80 to 85 *per cent* of the borrowed funds were utilised for repayment of borrowings and interest thereon which implies that the State was spending less on developmental activities.

(Paragraph 1.6.1)

Ujjwal Discom Assurance Yojana (UDAY)

Pursuant to the revival package for DISCOMs, the State Government took over the debt (₹ 2,331.78 crore) of the companies by issuing bonds to the participating lender banks, through the Reserve Bank of India. The State Government has paid an interest of ₹ 191.36 crore in 2017-18 on the bonds issued under UDAY scheme.

(Paragraph 1.6.3)

Savings

Out of total grants/appropriations (₹ 1,87,343.96 crore) in 2017-18, ₹ 46,396.66 crore (25 *per cent*) was saved. Significant savings of ₹ 1,000 crore and above and more than 20 *per cent* of total provision occurred in 11 grants aggregating to ₹ 30,899.89 crore (33 *per cent*) during 2017-18. Significant variations (20 *per cent* and above in each case) between the total grant or appropriation and expenditure incurred, leading to a savings of ₹ 11,046.78 crore under nine grants/appropriations. In 27 cases involving 25 grants/appropriations there were persistent savings of ₹ 24,318.74 crore and above during the last five years (ranging between ₹ 100.34 crore and ₹ 8,534.72 crore). In 42 cases, involving 38 grants/appropriations, supplementary provisions of ₹ 16,290.56 crore (₹ 10 lakh and more in each case) proved unnecessary as expenditure was not even up to level of original provision.

Recommendation: *The Finance Department should monitor the trend of expenditure by Departmental Controlling Officers, so that unnecessary provisions are not made, funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.*

(Paragraphs 2.2, 2.3.1, 2.3.2 and 2.3.3)

Surrender of funds

Out of total savings of ₹ 46,396.66 crore, only ₹ 34,570.64 crore was surrendered and ₹ 11,826.02 crore (25 *per cent* of total savings) lapsed during the year. Further, ₹ 19,042.51

crore (55 *per cent* of total surrenders during the year) was surrendered on the last working day of March 2018. There was cent per cent surrender of funds (more than ₹ five lakh in each case) in 189 heads of accounts under 35 grants/appropriations (total ₹ 3,591.68 crore).

Recommendation: *The Finance Department should ensure timely surrender of funds and evolve a system of timely budgetary releases to departments to minimise the surrenders.*

(Paragraphs 2.2 and 2.3.5)

Rush of Expenditure

During 2017-18, 18 departments incurred expenditure of ₹ 19,664.66 crore (78.04 *per cent* of their total expenditure of ₹ 25,196.70 crore) during the last quarter. Of this, ₹ 18,549.06 crore (73.62 *per cent* of their total expenditure) was incurred in March 2018.

Recommendation: *The Finance Department should frame rules to control rush of expenditure during the fag end of the financial year.*

(Paragraph 2.3.8)

Advances from Contingency Fund

The corpus of the State's Contingency Fund (₹ 350 crore) has been regularly enhanced, on temporary basis, year after year. In 2017-18, the State Legislature temporarily increased the corpus of the Contingency Fund from ₹ 350 crore to ₹ 6,403.42 crore. Compared to this, the Contingency Fund of India is ₹ 500 crore. During 2017-18, the State Government made 126 withdrawals amounting to ₹ 4,949.21 crore from the Contingency Fund. Out of these, 35 withdrawals amounting to ₹ 314.49 crore (6.35 *per cent*) were made for meeting expenditure which were clearly non-contingent in nature, violating Constitutional provisions.

Recommendations*: The Finance Department should review the practice of such large annual increase in the Contingency Fund corpus and should also ensure that advances from the Contingency Fund are utilized only to meet urgent unforeseen expenditure as contemplated under the Constitution and the Bihar Contingency Fund Act. The Finance Department should also bring to the notice of the Legislature every deviation from these stipulations at the time of seeking regularization of expenditure from the Contingency Fund.*

(Paragraph 2.4)

Unreconciled receipts and expenditure

HoDs did not reconcile receipts of ₹ 18,909.57 crore and expenditure of ₹ 1,19,427.35 crore under 48 receipts and 102 expenditure major heads respectively with the books of the AG (A&E), Bihar during 2017-18.

Recommendation: *The Finance Department should evolve a mechanism making it mandatory for the Controlling Officers to reconcile every month, their receipts and expenditure with the books of the AG (A&E).*

(Paragraph 2.6)

Personal Deposit (PD) accounts

174 Personal Deposit Accounts had balances of ₹ 5,888.45 crore as of March 2018. Out of the 174 PD accounts, 94 PD accounts in 47 treasuries were inoperative for the last three

years with 89 PD accounts having zero balance and 5 PD accounts having ₹ 27.73 crore. An amount of ₹ 65.77 crore were lying unspent for more than five consecutive years to avoid lapse of grant during financial years, in violation of the principles of budgetary and financial control. Non transferring the unspent balance, lying in PD Accounts, to Consolidated Fund of the State entails the risk of misuse of public funds, fraud and misappropriation.

Recommendations: *The Finance Department should review all PD accounts and ensure that (i) all PD accounts with zero/minimum balances are immediately closed; (ii) all amounts lying in PD accounts at the end of the year are immediately remitted to the Consolidated Fund; (iii) appropriate action is taken against departmental and treasury officers who fail to follow the financial rules relating to PD accounts.*

(Paragraph 3.1)

Accounting of Building and Other Construction Workers (BOCW) Welfare Cess

The Government of Bihar has not framed rules for accounting of BOCW Welfare Cess. No sub-head has been opened by the Government for booking the Labour Cess collected by various departments executing projects involving labour. The accounts of the BOCW Welfare Board have been finalised only till 2015-16.

Recommendation: *The Bihar BOCW Welfare Board should ensure timely preparation of accounts and maintain relevant records to fulfil its mandate of improving the working conditions of building and other construction workers and providing adequate financial assistance to them. GoB should adhere to Constitutional provisions and route the Cess through the Consolidated Fund and also frame rules for accounting of the Cess.*

(Paragraph 3.2)

Opaqueness in Accounts

Expenditure of ₹ 107.09 crore and revenue of ₹ 1607.18 crore were classified under the omnibus minor head "800-Other Expenditure/Receipts" respectively which reflected lack of transparency in financial reporting.

Recommendation: *The Finance Department may, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that such receipts and expenditure are in future booked under the appropriate head of account.*

(Paragraph 3.3)

Finalisation of accounts of PSUs/Corporations

The accounts of 30 working PSUs/ Corporations (160 accounts) and 37 non-working PSUs/ Corporations (1,016 accounts) are in arrears from one to 22 years and one to 41 years respectively in violation of provisions of the Companies Act/Acts of respective statutory corporations. The State Government provided budgetary support (equity, loans, grants and subsidies) and accepted liability (guarantee) of ₹ 26,640.53 crore in 27 PSUs during the period for which their account were in arrears as on 31 March 2018.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts, ensure that the accounts are made current within a reasonable period, and stop financial support in all cases where accounts continue to be in arrears.*

(Paragraph 3.5)

Non- submission of Utilisation Certificates

Utilisation Certificates (UCs) of ₹ 36,593.50 crore (2,455 UCs) were outstanding as on March 2018 against the grants-in-aid bills drawn by 35 departments. High pendency of UCs is fraught with risk of misappropriation and fraud.

Recommendation: *The Finance Department should prescribe a time frame within which administrative departments collect pending utilisation certificates. The Finance Department should also ensure that till such time, administrative departments release no further grants to defaulting grantees.*

(Paragraph 3.6)

Outstanding Detailed Contingent bills

₹ 6,162.68 crore drawn on 15,214 Abstract Contingent (AC) bills remained outstanding as of March 2018 due to delays in submission of Detailed Contingent (DC) bills. This includes 491 AC bills amounting to ₹ 867.31crore (29.84 *per cent*) which was drawn in March 2018 alone. Advances drawn and not accounted for increased the possibility of wastage/misappropriation/ malfeasance etc.

Recommendations: *The Finance Department should ensure that all controlling officers adjust AC bills pending beyond the prescribed period in a time bound manner, and also ensure that AC bills are not drawn merely to avoid lapse of budget. Disciplinary action may be initiated against officers/officials who draw funds on AC bills to avoid lapse of budget.*

(Paragraph 3.7)

Non-reconciliation of investments/loans and advances/guarantees

Figures relating to State Government investment, loans and guarantees in/to PSUs appearing in the Finance Accounts are based on information provided by the Finance Department, treasuries and administrative departments. It was however found that these figures differed from the figures reported by the PSUs by ₹ 645.26 crore, ₹ 163.33 crore and ₹ 2,185.48 crore respectively.

Recommendation: *The Finance Department and the concerned administrative departments should work closely with the Accountant General (A&E) to reconcile the differences in records and accounts relating to State Government investments, loans and advances and guarantees extended to different State Government entities.*

(Paragraph 3.8)

Apportionment of balances on reorganisation of the State

The State Government is yet (since November 2000) to apportion ₹ 11,148.69 crore between the successor States of Bihar and Jharkhand.

Recommendation*: The State Government should expedite the apportionment of balances of ₹ 11,148.69 crore between the two successor States.*

(Paragraph 3.10)

Unadjusted Temporary advances

Temporary advances of ₹ 145.24 crore drawn by eight departments/organisations are pending adjustment from 1983 onwards. Such amounts lying unadjusted beyond the stipulated period are fraught with risk of misappropriation and fraud.

Recommendation*: The Finance Department and the concerned administrative departments should review all unadjusted temporary advances and unspent amount, initiate action for their immediate adjustment, and take disciplinary action against officials/officers who have not adjusted/refunded the temporary advances within the stipulated time.*

(Paragraph 3.13)

Impact of incorrect accounting on Revenue surplus and Fiscal deficit

Incorrect accounting of expenditure and revenue resulted in overstatement of revenue surplus and understatement of fiscal deficit to the tune of ₹ 227.06 crore each in 2017-18.

(Paragraph 3.14)