

# *Preface*

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1. **T**his Report has been prepared for submission to the Governor of Bihar under Article 151 of the Constitution of India.
2. Chapter I and II of this Report contain Audit observations on matters arising from examination of Finance Accounts and Appropriation Accounts of the State Government respectively for the year ended 31 March 2008.
3. The remaining three chapters deal with the findings of performance audit, audit of financial transactions in the various departments including internal control system in Government Department.
4. The Report containing the observations arising out of audit of Statutory Corporations, Boards and Governments Companies and the Report containing such observations on Revenue Receipts are presented separately.
5. The cases mentioned in the Report are among those which came to notice during the course of test audit for the year 2007-2008 as well as those which had come to notice in earlier years but were not included in previous reports.



## OVERVIEW

This Report includes two chapters containing observations on Finance Accounts and Appropriation Accounts of the Government of Bihar for the year 2007-08 and three other chapters containing performance audit of three selected programme/schemes, 23 paragraphs relating to financial transaction of the Government and one performance audit review on internal control system in Urban Development and Housing Department.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgment basis. The audit conclusions have been drawn and recommendations made taking into consideration the views of the Government.

A summary of the financial position of the State and audit comments on the performance of the Government in implementation of certain programmes and schemes as well as internal control system in Urban Development and Housing Department are given below:

### Finances of the State Government

The state experienced improvement in its fiscal position during 2007-08 in terms of key fiscal parameters (Revenue, Fiscal, Primary deficit/Surplus) in relation to their values in 2006-07. In comparison to Gross State Domestic Product (GSDP), the fiscal deficit has declined from 3.05 *per cent* in 2006-07 to 1.62 *per cent* during the current year which was well within the norm of the Fiscal Responsibility and Budget Management (FRBM) Act and/or Twelfth Finance Commission (TFC) target to be achieved. The improvement in the fiscal position of the State should however be considered keeping in view the fact that a significant share (between 74 and 81 *per cent*) of the revenue receipts of the State is contributed by central transfers comprising of States' share of taxes and duties and grants-in-aid during the period 2003-08.

The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied with negligible rate of return on government investments might lead to a situation of unsustainable debt in the medium to the long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise additional resources both through the tax and non-tax sources in the coming years.

### Allocative priorities and Appropriation

Against the total budget provision of Rs 43,004.44 crore, expenditure of Rs 31,614.65 crore was incurred during 2007-08. The overall saving of Rs 11,389.79 crore was the net result of saving of Rs 11,391.72 crore and excess of Rs 1.93 crore against total provision of Rs 43,004.44 crore. The excess expenditure of Rs 7,026.64 crore for the years 1977-78 to 2007-08 would require regularisation by the State Legislature under Article 205 of the Constitution of India.

### **Nutritional Support to Primary Education (Mid-day Meal Scheme)**

Nutritional Support to Primary Education (NSPE), a Centrally sponsored Scheme, popularly known as Mid-day Meal Scheme (MDM) was launched in August 1995 with the objective of boosting universalisation of primary education by increasing enrolment, attendance, retention and simultaneous improvement in the nutritional status of students of primary classes.

There was increase in enrolment and retention of students in urban as well as rural schools which was a positive indication of the scheme. Absence of norms for providing funds and foodgrains to schools resulted in delay and interruptions in smooth implementation of scheme. Accounts of foodgrains were not reconciled and correctness of data reported were not ensured. Quality and quantity of mid-day meal was never checked. Kitchen shed, Kitchen devices, cooking and serving utensils were not adequately provided in spite of availability of fund with DSEs.

### **Swarnjayanti Gram Swarozgar Yojana**

The Swarnjayanti Gram Swarozgar Yojana was launched by Government of India from 1 April, 1999 as a single holistic programme to cover all aspects of self employment for the rural poor. The scheme suffered adversely due to inadequate credit mobilization and non-disposal of loan applications by banks, poor utilisation of funds, diversions and misutilisation of fund, etc. Proper selection of target groups, their training requirement for skill upgradation and monitoring upto sustainable income generation was not ensured. None of the special projects taken up under the scheme were completed by the target date. The programme was not monitored regularly.

### **Accelerated Irrigation Benefit programme**

Accelerated Irrigation Benefit Programme (AIBP) was launched in 1996-97 by Government of India to accelerate the completion of ongoing irrigation projects which remained incomplete due to financial constraints and were expected to create additional irrigation potential.

As against targeted irrigation potential of 4,30,137 hectare (ha), only 3,22,070 ha could be created and overall implementation of the scheme/programme suffered due to non-compliance with pre-project activities. The unplanned execution of works further marred utilisation of the irrigation potential which was created, all this resulted in manifold increase in cost of projects under AIBP. As against requirement of 4195.37 acres of land for Western Kosi Canal, the land acquired was only 883.13 acre as of March 2008.

### **Internal Controls in Urban Development and Housing Department**

Internal Control System is a process meant to ensure that departmental operations are carried out according to applicable laws, regulations and approved procedure in an economical, efficient and effective manner.

An evaluation of the internal control system in the Urban Development and Housing Department disclosed non-compliance with Bihar Financial Rules, Budget Manual, Bihar Treasury Code and Municipal Accounts Rules which resulted in weak financial and expenditure control at every stage, which resulted in unrealistic budget and seven to 51 *per cent* savings during the year 2005-2008. There was absence of departmental manuals and lack of regular monitoring. Complaint redressal mechanism was not adequate.

### **Audit of Transaction**

Audit of financial transactions, subjected to test-check, in various departments of the Government and their field functionaries revealed instances of irregular payment, misappropriation, loss, excess, idle, avoidable expenditure and misutilisation of Rs 42.92 crore as mentioned below:

In seven cases misappropriation, fraudulent payment and loss to the government amounting to Rs 12.94 crore were noticed in Water Resources Department (Rs 11.23 crore), Rural Development Department (Rs 83.56 lakh), Building Construction Department (Rs 32.92 lakh), Road Construction Department (Rs 30.98 lakh) and Rural Works Department (Rs 23.32 lakh).

*(Paragraph 4.1.1 to 4.1.7)*

Four cases of excess payment and unauthorised expenditure of Rs 5.84 crore were noticed in Agriculture Department (Rs 4.38 crore), Human Resources Development (Higher Education) Department (Rs 1.46 crore).

*(Paragraph 4.2.1 to 4.2.4)*

Avoidable expenditure of Rs 1.82 crore was noticed in Public Health Engineering Department (Rs 1.27 crore) and Water Resources Department (Rs 55.89 lakh).

*(Paragraph 4.3.1 and 4.1.7)*

Idle expenditure, blocking/misutilisation of funds of Rs 18.68 crore was noticed in five departments i.e. Social Welfare Department (Rs 11.82 crore), Rural Development Department (Rs 3.55 crore), Human Resources Development (Higher Education) Department (Rs 2.56 crore), Agriculture Department (Rs 49.40 lakh) and Health & Family Welfare Department (Rs 26.24 lakh)

*(Paragraph 4.4.1 to 4.4.8)*

Irregular expenditure Rs 3.64 crore were noticed in Building Construction Department, Road Construction Department and Water Resources Department due to non-adherence to the instructions of the Government

*(Paragraph 4.5.1)*