

Executive Summary

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 Act, 2006 with a view to ensure prudence in fiscal management and fiscal stabilities 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. The benefits of FRBM legislation have been realized to a great extent already, in terms of reduction in deficit indicators.

The State Government has done well in 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 Comptroller and Auditor General's Audit Reports have been commenting upon the Government's finance for over three years since the FRBM legislation. Since these comments formed part of the Civil Audit Reports, it was felt that the audit findings on State finances remained camouflaged because the majority of audit findings were on compliance and performance aspects. The obvious fallout of the all-inclusive reporting was that the audit findings on financial management did not receive proper attention. In recognition of the need to bring the State finances to centre-stage, a stand-alone report on State Government finances was considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, the Comptroller and Auditor General has decided to bring out a separate volume titled 'Report on Finance'.

The report

Based on the audited accounts of the Government of Bihar for the year ending March 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report 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 2009. It provides an insight into trends of committed expenditure and borrowing pattern, 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 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 report also has additional data collected from several sources in support of the findings.

Audit findings and recommendations

Fiscal discipline: The target to reduce revenue deficit to Zero as per the Twelfth Finance Commission recommendations was achieved and the State was running into a revenue surplus. Revenue receipt increased by Rs 4770.97 crore, of which Rs 3056.67 crore, (64 *per cent*), was due to grants-in-aid and the share of Union Taxes received from Government of India.

Need to compress non-plan expenditure: The revenue expenditure was 80 *per cent* of the total expenditure of which 75 *per cent* was under non-plan, which also included expenditure on Salary, pension payment, interest liabilities and subsidies.

Review of Government Investment: The average return on the Government's investments in statutory companies, Government companies, co-operative banks and societies varied between zero to 0.38 *per cent* during the last three years, while the Government paid interest on borrowings at rates ranging from 7.15 to 7.93 *per cent*. This was obviously an unsustainable proposition. The Government should, therefore, hasten to seek better value for money in its investments. Otherwise, high cost 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 lead to a situation of unsustainable debt in the medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and mobilise of additional resources, both through the tax and non-tax sources.

Financial management and budgetary control: During 2008-09, there were overall savings of Rs 11313.14 crore, which were a result of the total savings of Rs 11369.48 crore, being offset by the excess of Rs 54.63 crore. This excess requires regularization under Article 205 of the Constitution of India. Cases were noticed where the amounts surrendered were in excess of the actual savings, indicating lack of or inadequate budgetary control. As against savings of Rs. 1093.85 crore, the total amount surrendered was Rs.1262.73 crore, resulting in excess surrender of Rs 168.88 crore . There were 33 grants/appropriations in which savings of Rs 9802.01 crore occurred but Rs 2669.29 crore (27.23 *per cent* of savings) was not surrendered by the concerned departments. Similarly, in 50 cases, savings of Rs 6310.70 crore were surrendered on the last two working days of March 2009. Excess expenditure of Rs 7026.64 crore was pending for regularization from 1977 to 2008. There was 100 percent surrender of funds amounting to Rs 103.23 crore in 31 schemes. Budgetary controls should be strengthened to avoid such deficiencies in financial management.

Financial Reporting: The State Government's compliance with various rules, procedures and directives was unsatisfactory, which was evident from the delays in furnishing utilization certificates against the loans and grants received from various grantee institutions. The Government reported 890 cases of misappropriation, defalcation, theft, loss etc., involving Government money amounting to Rs 380.99 crore up to March 2009, on which final action was pending. Departmental enquiries /final action in respect of all misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent such cases in future.