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This Report on the finances of the Government of Bihar (GoB) has been prepared for submission to the Governor of Bihar under Article 151 of the Constitution.

This Report intends to assess the financial performance of the State during 2016-17 and to provide the State Legislature with inputs based on audit analysis of financial data. The Report attempts to analyse the financial performance against the targets envisaged by the Bihar Fiscal Responsibility and Budget Management (Amendment) Act, 2016, the Fourteenth Finance Commission (FFC) Report and the Budget Estimates of 2016-17. The Report is structured in three Chapters.

**Chapter-I** is based on the audit of the Finance Accounts and makes an assessment of the Bihar Government's fiscal position as on 31 March 2017. It provides an insight into trends in expenditure on interest payments, salaries and wages, pensions, subsidies and repayment of debt and borrowing patterns.

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

**Chapter-III** is an inventory of the GoB's compliance to various reporting requirements and financial rules.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

The gist of important findings of this report is given below:

- While revenue receipts, revenue expenditure and capital expenditure, as a percentage of GSDP, have increased in 2016-17 when compared to 2012-13 even after accounting for inflation, their rate of growth reduced in 2016-17. The rate of growth of capital formation, in particular, was substantially lower.
- The State has not achieved revenue surplus and ratio of outstanding debt to GSDP targets of the budget estimates 2016-17, XIV Finance Commission and Bihar Fiscal Responsibility and Budget Management Act.
- The primary deficit of the State increased from ₹ 2,117 crore (2012-13) to ₹ 8,288 crore during 2016-17 indicating that non-debt receipts were increasingly insufficient to meet the primary expenditure of the State.
- Revenue receipts in 2016-17 grew by ₹ 9,462 crore (10 *per cent*) over 2015-16, but were lower than the budget estimates by ₹ 19,005 crore.
- Revenue expenditure in 2016-17 increased by ₹ 11,149 crore (13 *per cent*) over 2015-16, but was lower than the budget estimates by ₹ 15,176 crore.

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- Capital expenditure in 2016-17 increased by ₹ 3,242 crore (14 *per cent*) over 2015-16, but was lower than the budget estimates by ₹ 7,547 crore.
- The States' own revenues which had been growing year on year suffered a drop of ₹ 1,490 crore in 2016-17 primarily because of reduction in revenue of ₹ 3,112 crore due to imposition of prohibition. By the same token, the expenditure on State Excise increased from ₹ 49.63 crore in 2015-16 to ₹ 91.96 crore in 2016-17, primarily due to increase in enforcement activities.
- As of March 2017, arrears of revenue amounting to ₹ 6,327.12 crore were outstanding, out of which, ₹ 801.75 crore has been outstanding for more than five years.
- Committed expenditure of the Government under Revenue head mainly consisted of interest payments (₹ 8,190.70 crore), expenditure on salaries and wages (₹ 15,784.04 crore), pensions (₹ 12,514.52 crore) and subsidies (₹ 8,757.44 crore). Committed expenditure (₹ 45,246.70 crore) constituted a major component of revenue expenditure and consumed 74 *per cent* of the non-plan revenue expenditure (₹ 61,189 crore).
- The ratio of development expenditure, social services expenditure and education services expenditure to aggregate expenditure was higher than the average for the General category States. However, the share of education in aggregate expenditure dropped in 2016-17 over the five year period, while the share of health to aggregate expenditure is less than the average for General category states.
- The gap in cost recovery (31 *per cent*) is more than that of the neighbouring States *i.e.*, Jharkhand (8.47 *per cent*), Uttar Pradesh (20 *per cent*), Madhya Pradesh (-49 *per cent*) and Chhattisgarh (-87 *per cent*), indicating that the State has a long way to go.
- During 2012-17, the State Government incurred a loss of ₹ 2,190.50 crore on account of difference between the Government's borrowing cost and the return on investment in various entities. The return on investment in non-working PSUs cannot be estimated.
- Interest in arrears on Loans and advances to various entities has increased over the years and was ₹ 6,652.60 crore as of 31 March 2017.
- The percentage of net funds available to receipts under public debt during 2016-17 was 19.15 *per cent* compared to 25.75 *per cent* in Uttar Pradesh, 30.54 *per cent* in Madhya Pradesh, 32.43 *per cent* in Jharkhand and 25.44 *per cent* in Chhattisgarh.
- Out of total grants/appropriations (₹ 1,69,351.63 crore) in 2016-17, ₹ 41,353.31 crore (24.42 *per cent*) was saved. Significant savings of ₹ 1,000 crore and above and more than 20 *per cent* of total provision occurred in 11 departments aggregating to ₹ 26,316.01 crore (38.07 *per cent*) during 2016-17. In 11 cases involving 10 grants there were persistent savings ranging between ₹ 72.52 crore and ₹ 3,350.96 crore

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(11.39 *per cent* to 69.33 *per cent* of total provision) during the preceding five years. In 46 cases, involving 37 grants/appropriations, supplementary provisions of ₹ 11,677.83 crore (₹ 10 lakh and more in each case) proved unnecessary as expenditure was not even up to level of original provision.

- Out of total savings of ₹ 41,353.31 crore, only ₹ 29,771.11 crore was surrendered and ₹ 11,582.20 crore (28.01 *per cent* of total savings) lapsed during the year. Further, ₹ 18,552.67 crore (62.32 *per cent* of total surrenders during the year) was surrendered on the last working day of March 2017. There was cent per cent surrender of funds (more than ₹ five lakh in each case) in 186 head of accounts under 35 grants/appropriations (total ₹ 3,421.66 crore).
- The State Legislature is yet to regularise excess expenditure of ₹ 807.36 crore over provisions incurred during 1977-78 to 2015-16. There was no excess expenditure in 2016-17.
- During 2016-17, 17 departments incurred expenditure of ₹ 19,036.99 crore (68.63 *per cent* of their total expenditure of ₹ 27,738.38 crore) during the last quarter. Of this, ₹ 14,175.07 crore (51.10 *per cent* of their total expenditure) was incurred in March 2017.
- The corpus of the State's Contingency Fund (₹ 350 crore) has been regularly enhanced, on temporary basis, year after year. In 2016-17, the State Legislature temporarily increased the corpus of the Contingency Fund from ₹ 350 crore to ₹ 5,787.85 crore. Compared to this, the Contingency Fund of India is ₹ 500 crore. During 2016-17, the State Government made 136 withdrawals amounting to ₹ 4,416.63 crore from the Contingency Fund. Out of these, 61 withdrawals amounting to ₹ 2,726.35 crore (61.73 *per cent*) were made for meeting non-contingent expenditure, violating Constitutional provisions.
- HoDs did not reconcile receipts of ₹ 25,430.49 crore and expenditure of ₹ 1,00,816.53 crore under 26 receipt and 87 expenditure major heads respectively with the books of the AG (A&E), Bihar during 2016-17.
- The accounts of 21 working PSUs/ Corporations (142 accounts) and 44 non-working PSUs/ Corporations (1,029 accounts) are in arrears from one to 40 years.
- Utilisation Certificates (UCs) of ₹ 35,677.41 crore (2,107 UCs) were outstanding as on March 2017 against grants-in-aid bills drawn by 32 departments.
- ₹ 4,750.52 crore drawn on 15,575 Abstract Contingent (AC) bills remained outstanding as of March 2017 due to delays in submission of Detailed Contingent (DC) bills. This includes 888 AC bills amounting to ₹ 533.07 crore (29.47 *per cent*) which was drawn in March 2017 alone, of which 151 AC bills (₹ 43.52 crore) were drawn on the last day of the financial year.

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- Temporary advances and Imprest of ₹ 161.00 crore drawn by eight departments/ organisations are pending adjustment from 1985 onwards. Such amounts lying unadjusted beyond the stipulated period are fraught with risk of misappropriation and fraud.
- Incorrect accounting of expenditure and revenue resulted in overstatement of revenue surplus and understatement of fiscal deficit to the tune of ₹ 157.54 crore each in 2016-17.