Executive Summary

Background

In response to the Twelfth Finance Commission's recommendation, the Government of Jharkhand enacted its 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 etc, 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 to promote 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 Comptroller and Auditor General's Audit Reports have been commenting upon the Government's finances 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 this all-inclusive reporting was that the audit findings in financial management portion of these findings did not receive proper attention. In recognition of the need to bring 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 2008-09 onwards, the Comptroller & Auditor General of India has decided to bring out a separate volume titled "Report on State Finances."

The Report

Based on the audited accounts of the Government of Jharkhand 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 I is based on the audit of Finance Accounts and makes an assessment of the Government's fiscal position as at 31 March 2009. 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 were 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: The Government achieved a revenue surplus in 2006-07 and has retained it, albeit with a steep fall in the quantum of revenue surplus during the current year due to the slump in the economy and the award of the Sixth Pay Commission which put pressure on the committed expenditure. The State failed to achieve the target set for containing the fiscal deficit within three *per cent* of the GSDP.

Priority to capital expenditure: Government gave adequate fiscal priority to capital expenditure since the capital expenditure/aggregate expenditure ratio was higher than the national average. This should be maintained in future.

Adequate thrust to development and social sector expenditure: The per capita development expenditure and per capita social sector expenditure in Jharkhand is much lower than the national average even though the state is spending adequate amounts compared to the rest of the country on social sector expenditure. However, it was slightly lower in the case of developmental expenditure. This calls for a serious introspection on whether the capacity of the State to utilise expenditure for developmental and social outcomes can be improved by better designing of schemes, reducing administration costs, timely implementation, closer monitoring etc. Cost and time overruns of incomplete projects are inevitable by-products of weak control systems. The State can work towards further improvements in this area so that people derive the envisaged benefits in the quickest possible time.

Review of Government investments: The average return on the Government's investments in statutory corporations, rural banks, joint stock companies and co-operatives was reported to be 'nil' in the past three years, while the government paid an average of 7.97 *per cent* as interest on its borrowings during this period. This was obviously an unsustainable proposition. The Government should, therefore, hasten to seek better value for money in investments. Otherwise, high-cost borrowed funds invested in projects with 'nil' financial return will continue to strain the economy.

Increasing fiscal liabilities accompanied by negligible rates of return on Government investments 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 additional resources both through tax and non-tax sources.

Debt sustainability: The quantum spread together with the primary deficit, was positive in two years and negative in three years, during the five-year period from 2004-05 to 2008-09. The resource gap has been fluctuating during these five years. In the year 2008-09, the resource gap increased over the previous year. All these are indicative of increasing debt liabilities in future.

Financial management and budgetary control: During 2008-09, there was an overall saving of Rs 4328.93 crore, which was the result of savings of Rs 3378.73 crore in 46 grants and four appropriations under the Revenue Section and Rs 1179.09 crore in 25 grants under the Capital Section offset by excess of Rs 228.89 crore in one grant and one appropriation under the Capital Section. This excess requires 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 another 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 utilising these funds for another development purposes. Detailed bills were not submitted for large amounts of advances drawn on abstract contingent bills. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/surrender orders should be avoided.

Financial reporting: The State Government's compliance with various rules, procedures and directives was inadequate which was evident from the delays in furnishing utilisation certificates against loans and grants received by departmental undertakings/institutions. Submission of Annual Accounts was delayed by some autonomous bodies and departmental undertakings. Internal controls in all the organisations should be strengthened to prevent such cases in future.