Executive Summary

Background

In terms of Gross State Domestic Product, West Bengal is one of the larger states in the country. On the social front, the State had fared much better than the other General Category States on an average, as it managed to contain infant mortality at level much lower than the all India average and achieved higher percentage of literacy and life expectancy at birth. The percentage of population below poverty line was also lower than the all India average. However, such social achievements notwithstanding, there are some issues of concern as regards financial performance in terms of various fiscal parameters. Besides there are some issues of budgetary management and compliance with financial rules, which call for attention of the Government, as discussed in the succeeding chapters.

With an aim to restructuring of public finances, restoring budgetary balances and achieving macro-economic stability, Twelfth Finance Commission (TFC) recommended that each State must enact fiscal responsibility legislation for eliminating the revenue deficit by 2008-09 and reducing fiscal deficit based on a path for reduction of borrowings and guarantees. In West Bengal, however, Fiscal Responsibility and Budget Management (FRBM) Act was enacted only in July 2010.

The Report

Based on the audited accounts of the Government of West Bengal for the year ended March 2010, 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 West Bengal Government's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing patterns besides a brief account of central funds transferred directly to the State Implementing Agencies through off budget route.

Chapter 2 is based on Appropriation Accounts and gives the grant by grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of West Bengal 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

Finances of the State Government

The Twelfth Finance Commission had recommended that the States enact their fiscal responsibility legislations, bringing down the revenue deficit to zero and fiscal deficit to sustainable level by 2008-09. The State Government, however, enacted the same only in July 2010, which had cost the State Government total relief of ₹ 3157.87 crore. As the award period of Twelfth Finance Commission comes to an end and the stage is all set to embrace the Thirteenth Finance Commission recommendations, the scenario of revenue collection *vis-à-vis* expenditure level does not seem to be encouraging. On revenue side of the receipts, there was almost no addition in the kitty in the present year. On the other hand, dependence on borrowing for meeting Revenue Expenditure was also on the rise. While Revenue expenditure constituted 94 *per cent* of the total expenditure, committed components accounted for 77 *per cent* of revenue expenditure leaving little flexibility for the Government to utilise its resources for service providing sectors. The situation deteriorated with the implementation of the Fifth State Pay Commission.

FRBM act having been enacted in the State in July 2010, tighter integration would be desirable between the multi year framework provided by Medium Term Fiscal Plan and the annual budget exercise as recommended by the Thirteenth Finance Commission. The State should also take effective steps to increase its tax base to earn more revenue.

Though the State has spent a higher proportion of money on social sector as compared to other general states, low expenditure on Economic sector might affect the economic growth, which in the long run may even jeopardize the availability of funds for social sector. Capital expenditure (CE) continued to be another area calling for attention as it constitutes only five *per cent* of total expenditure during 2009-10, which was far less than the all General Category States' average.

The State may consider enhancing the priority it assigns to economic sector and capital expenditure.

Given the increasing trend of transfer of GoI funds directly to implementing agencies outside the State's budget, another governance issue, which merits concern, is monitoring over funds transferred directly from Government of India (GoI) to State implementing agencies**.** As these funds remain outside the State budget, there is no single agency monitoring utilisation.

A system has to be in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the office of the Accountant General.

Government is getting only a miniscule return from its capital outlay in Irrigation works. On the investment front, return on investment in Statutory Corporations, Rural Banks etc. varied between zero and 0.07 *per cent*, while Government had to pay interest at the average rate of 8.32 to 9.48 *per cent* on its borrowings during 2005-10.

It would be desirable that the State Government ensures better value for money in investments and prioritise projects with high socio-economic return. Efforts are needed to implement the recommendations of the Thirteenth Finance Commission (2010-2015) on clearance of arrear accounts of all PSUs, consider closure of non-working PSUs as well as divestment and privatisation of non-viable PSUs.

The significant increase in the three indicators of fiscal imbalance i.e. revenue deficit, fiscal deficit and primary deficit is a cause for concern. Revenue deficit, which was to be eliminated by 2008-09, stood at a whopping ₹ 21578 crore, while fiscal deficit, which was to be contained within four *per cent* of GSDP in 2009-10 (₹ 14705 crore as per this yardstick), stood at ₹ 24954 crore. Debt-GSDP ratio, which should have been 28 *per cent*, was 47 *per cent* during 2009-10.

With phenomenal growth in committed expenditure and inability in adjusting expenditure downwards, State Government should endeavour to maintain debt-GSDP ratio in such a manner that incremental non-debt receipts become adequate to cover incremental interest burden.

Financial management and budgetary control:

During 2009-10 there were overall savings of ₹4079.58 crore, which was the result of saving of ₹ 7572.48 crore offset by the excess of ₹ 3492.90 crore, requiring regularisation (para 2.3.7) under Article 205 of the Constitution of India. It was also noticed that during 2009-10, expenditure of ₹ 3442.12 crore was incurred in 27 cases without any provision in the original estimates/supplementary demand and without any re-appropriation orders to this effect (para 2.3.4). There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Besides, there were cases of rush of expenditure at the end of the year. In many cases, the anticipated savings were not surrendered leaving no scope for utilising these funds for other development purposes. In violation of the provisions of Budget manual and West Bengal Financial Rules the Controlling Officers of test checked Departments did not monitor over the progress of expenditure.

The Controlling Officers should keep constant watch over progress of expenditure as required under Rules 384 and 385 of West Bengal Financial Rules, so that possibility of savings/excess is anticipated well in advance. Non-surrendering of anticipated savings by various Departments needs to be seriously viewed for fruitful utilisation of surplus fund.

Financial reporting:

Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance contribute to a sound internal financial discipline. The desired level of compliance was, however, absent in many spheres as would be evident from non-submission of utilisation certificates for years together (para 3.1), non-submission of annual accounts of Autonomous Bodies/Authorities, delays in preparation of *pro forma* accounts of departmental undertakings performing quasi-commercial activities (paras 3.2 and 3.4). There were also delays in presentation of Separate Audit Reports in the State Legislature (para 3.3).

Concerned Departments should take immediate steps for submission of outstanding accounts of autonomous bodies without further delay and for timely placement of Separate Audit Reports in the State Legislature.

Drawing and Disbursing Officers (DDOs) draw advances by debiting the service heads through Abstract Contingent (AC) bills, which are to be adjusted within sixty days. As of March 2010, 8562 AC bills for ₹475.35 crore remained unadjusted, of which 5994 bills for ₹290.89 crore were outstanding for more than one year. (para 3.6.2).

The issue of huge accumulation of unadjusted abstract contingent bills should be looked into and a target date should be stipulated by each controlling officer for adjustment of the old outstanding bills by his subordinate DDOs. Further, adjustment of all AC bills within the period stipulated by the Treasury Rules should also be ensured.

Total amounts remaining parked in Personal Ledger Accounts of the State increased from ₹ 743.95 crore as of March 2005 to ₹ 2008.74 crore as of March 2010 (para 3.6.3). This indicated that though these amounts had been booked as expenditure under the service heads, the same were not actually spent, thereby inflating the expenditure figures to that extent. Of the 148 accounts in the State, 44 accounts were not operated for more than one year.

Immediate steps need be taken for review of status of PL Accounts and closure of inoperative ones.