

EXECUTIVE SUMMARY

Fiscal situation of the State

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.

(Paragraph 1.1.1)

The State has not achieved revenue surplus and ratio of outstanding debt to GSDP targets of the budget estimates 2016-17, FFC and BFRBM Act.

(Paragraph 1.1.2)

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.

(Paragraph 1.1.2.2)

Resource mobilisation

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.

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.

Recommendation: *The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between budget estimates and actuals is bridged.*

(Paragraphs 1.1.1 & 1.1.3)

Summary of important audit findings and recommendations:

State Excise

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.

(Paragraph 1.2.2.1 & 1.2.2.2)

Arrears of revenue

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.

Recommendation: *The Finance Department should devise a mechanism to ensure that arrears of revenue are expeditiously collected.*

(Paragraph 1.2.2.4)

Committed expenditure

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).

(Paragraph 1.3.4)

New Pension Scheme (NPS)

The details of contributions made by employees under NPS from 2005 to 2013 are not available in the State Accounts. Audit has, therefore, been unable to estimate whether the amounts actually due to be deducted from employees since the inception of the scheme have been deducted, fully matched with government share, and transferred to NSDL.

As against the employees contribution of ₹ 1,172.15 crore from 2013-14 to 2016-17, the actual contribution made by the State Government was ₹ 1,115.71 crore, resulting in short contribution of ₹ 56.44 crore. This short contribution, with accrued interest, which could not be estimated, represents outstanding liabilities under the Scheme. This has also resulted in overstatement of the Revenue Surplus and understatement of the Fiscal Deficit in the respective years.

Apart from the above, against the total contribution of ₹ 2,287.86 crore (employees' share and Government share for the period 2013-14 to 2016-17), only ₹ 2,199.32 crore was transferred to NSDL leaving a balance of ₹ 88.54 crore (which also constitutes outstanding liabilities under the Scheme) in the Public Account under MH 8342.

Recommendation: *The State Government should initiate action immediately to ensure that employees recruited on or after 1 September 2005 are fully covered under the New Pension Scheme from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL in a timely manner.*

(Paragraph 1.3.4.1)

Adequacy of public expenditure

The ratio of development expenditure, social services expenditure and education services 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.

(Paragraph 1.3.5.1)

Financial results of irrigation projects

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.

(Paragraph 1.4.1)

Incomplete projects

Seven departments had 130 incomplete projects valued at ₹ 2,269.08 crore. Out of this, costs were revised only for four projects. Cost revision of the remaining 126 works with estimated cost of ₹ 2,157.60 crore has not been done resulting in the State facing a huge un-estimated liability on these un-fructified projects.

Recommendation: *The Finance Department and the concerned departments may evolve a mechanism to ensure timely completion of projects.*

(Paragraph 1.4.2)

Returns on investments

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.

Recommendation: *The Finance Department and the concerned administrative departments should review investment to entities whose financial performance does not even meet the borrowing cost of capital. In any event, no investment should be made or loans extended to entities whose accounts are in arrears.*

(Paragraph 1.4.3)

Loans and Advances by the State Government

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.

Recommendation: *The Finance Department and the concerned administrative departments should consider initiating action to write off loans and advances made to entities that have not repaid the principal or paid interest for the past several years.*

(Paragraph 1.4.4)

Transactions under Reserve Funds

As per the Finance Accounts, the State Government operates six Reserve Funds. Four Reserve Funds viz., Depreciation/Renewal Reserve Funds, Famine Relief Fund, Development and Welfare Funds, General and Other Reserve Funds did not have any transactions, during the past 16 to 17 years.

Recommendation: *The Finance Department and the concerned administrative departments should close all Reserve funds which have had no transactions for the past several years.*

(Paragraph 1.5.2)

Sinking Fund

The 12th Finance Commission had recommended that States should set up Sinking Funds for amortisation of all liabilities. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the Fund, stipulate a minimum annual contribution of 0.5 per cent of outstanding liabilities at the beginning of the year. The State Government set up a Consolidated Sinking Fund in 2008-09 which was only for amortisation of market loans and not all outstanding liabilities. The Fund was to be utilised for redemption of the

outstanding liabilities of the Government commencing from the year 2014-15. However, the Fund was not utilised for the purpose during 2014-17. The closing balance of the Fund as on 31 March 2017 was ₹ 3,417.63 crore.

(Paragraph 1.5.2.1)

State Disaster Response Fund (SDRF)

As per the recommendations of the 13th Finance Commission, the State Government commenced operation of the State Disaster Response Fund in 2010-11, with Central and State Government contribution in the proportion of 75:25. The State Government credited ₹ 492 crore (₹ 369 crore Central share and ₹ 123 crore State share) to the SDRF in 2016-17. The Fund had a closing balance of ₹ 696.39 crore as on 31 March 2017. Interest of ₹ 119.72 crore has not been paid by the State Government in 2016-17. Consequently, the Revenue Surplus of the State Government has been overstated and the Fiscal Deficit has been understated by ₹ 119.72 crore. The unpaid interest (₹ 931.04 crore) since the operation of SDRF represents the unaccounted liabilities of the State.

(Paragraph 1.5.2.2)

Status of Guarantees

The State Government has not created any Guarantee Redemption Fund or framed any rules for fixing the ceiling on the guarantees to be given by the State Government as stipulated by the 12th Finance Commission. The State Government failed to make minimum annual contributions of ₹ 32.69 crore (0.5 per cent of outstanding guarantees of ₹ 6,537.45 crore at the beginning of the year 2016-17) in terms of the guidelines, resulting in overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹ 32.69 crore during 2016-17. The total liability of the State on this account from 2009-10 to 2016-17 was ₹ 91.81 crore.

(Paragraph 1.5.3)

Net availability of borrowed funds

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.

(Paragraph 1.6.1)

Ujjwal Discom Assurance Yojana (UDAY)

Pursuant to the revival package for DISCOMs, the State Government took over the debt (₹ 2,331.78 crore¹) of the companies by issuing bonds to the participating lender banks, through the Reserve Bank of India.

(Paragraph 1.6.4)

Savings

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 (11.39 per cent to 69.33 per cent of total provision) during the preceding five years. In 46 cases (37 grants/appropriation),

¹ ₹ 1,554.52 crore (50 per cent) in 2015-16 and ₹ 777.26 crore (25 per cent) in 2016-17.

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.

Recommendation: *The Finance Department should monitor the trend of expenditure by Departmental Controlling Officers, so that unnecessary provisions are not made, and funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.*

(Paragraph 2.2, 2.3.2, 2.3.3 and 2.3.4)

Surrender of funds

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 ₹ 5 lakh in each case) in 186 head of accounts under 35 grants/appropriations (total ₹ 3,421.66 crore).

Recommendation: *The Finance Department should monitor the trend of expenditure by Departmental Controlling Officers, so that unnecessary provisions are not made, and funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.*

(Paragraph 2.2 and 2.3.6)

Excess expenditure of previous years requiring regularisation

The State Legislature is yet to regularise excess expenditure of ₹ 807.36 crore over provisions incurred during 1977-78 to 2015-16.

Recommendation: *The Finance Department should take immediate steps to regularise the excess expenditure of ₹ 807.36 crore pertaining to previous years. In future, such un-voted expenditure may be completely stopped, except in case(s) of dire and extreme emergency, the cost of which cannot be met from the Contingency Fund.*

(Paragraph 2.3.1)

Rush of Expenditure

During 2016-17, 17 departments incurred expenditure of ₹ 19,036.99 crore (68.63 per cent of total expenditure of ₹ 27,738.38 crore) during the last quarter. Of this, ₹ 14,175.07 crore (51.10 per cent of total expenditure) was incurred in the month of March 2017.

Recommendation: *The Finance Department should frame rules to control rush of expenditure during the fag end of the financial year.*

(Paragraph 2.3.9)

Advances from Contingency Fund

The corpus of 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.

Recommendations: *The Finance Department should review the practice of such large annual increase in the Contingency Fund corpus and should also ensure that advances from the Contingency Fund are utilized only to meet urgent unforeseen expenditure as contemplated under the Constitution and the Bihar Contingency Fund Act. The Finance Department should also bring to the notice of the Legislature every deviation from these stipulations at the time of seeking regularization of expenditure from the Contingency Fund.*

(Paragraph 2.4)

Unreconciled receipts and expenditure

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.

Recommendation: *The Finance Department should evolve a mechanism making it mandatory for the Controlling Officers to reconcile every month, their receipts and expenditure with the books of the AG (A&E).*

(Paragraph 2.6)

Personal Deposit (PD) accounts

177 Personal Deposit Accounts had balances of ₹ 4,373.65 crore as of March 2017. Out of the 177 PD accounts, 60 PD accounts are inoperative for the last three years with 59 PD accounts having zero balance and one PD account having ₹ 0.66 crore.

Recommendations: *The Finance Department should review all PD accounts and ensure that (i) all PD accounts with zero/minimum balances are immediately closed; (ii) all amounts lying in PD accounts at the end of the year are immediately remitted to the Consolidated Fund; (iii) appropriate action is taken against departmental and treasury officers who fail to follow the financial rules relating to PD accounts.*

(Paragraph 3.1)

Accounting of Building and Other Construction Workers (BOCW) Welfare Cess

The Government of Bihar has not framed rules for accounting of BOCW Welfare Cess. No sub-head has been opened by the Government for booking the Labour Cess collected by various departments executing projects involving labour. The Labour Cess collected by Government departments has been directly booked under MH 8443 Civil Deposit-108-Public Works Deposits without routing through the Consolidated Fund of Bihar, as required under Constitutional provisions. Further, though the minor head-Public Works Deposits includes many receipts apart from Labour Cess, it does not have any further sub-heads below it, and consequently, the amount of Labour Cess collected by the various departments could not be ascertained. It has also not been possible to segregate the amount paid to the Labour Welfare Board. The accounts of the BOCW Welfare Board have been finalised only till 2012-13.

Recommendation: *The Bihar BOCW Welfare Board should ensure timely preparation of accounts and maintain relevant records to fulfil its mandate of improving the working conditions of building and other construction workers and providing adequate financial assistance to them. GoB should adhere to Constitutional provisions and route the Cess through the Consolidated Fund and also frame rules for accounting of the Cess.*

(Paragraph 3.2)

Opaqueness in Accounts

Expenditure of ₹ 174.65 crore and revenue of ₹ 1,212.95 crore were classified under the omnibus minor head “800-Other Expenditure/Receipts” respectively which reflected lack of transparency in financial reporting.

Recommendations: *The Finance Department may, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that such receipts and expenditure are in future booked under the appropriate head of account.*

(Paragraph 3.3)

Finalisation of accounts of PSUs/Corporations

The accounts of 21 working PSUs (142 accounts) and 44 non-working PSUs (1,029 accounts) are in arrears from one to 40 years. The State Government had extended budgetary support, by way of infusion of equity, loans, grants-in-aid/subsidy, of ₹ 1,052 crore to seven PSUs during 2014-16 and ₹ 1,414.79 crore to five PSU's during 2016-17 whose accounts were in arrears for more than three years.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts, ensure that the accounts are made current within a reasonable period, and stop financial support in all cases where accounts continue to be in arrears.*

(Paragraph 3.4)

Non- submission of Utilisation Certificates

Utilisation certificates (UCs) of ₹ 35,677.41 crore (2,107 UCs) were outstanding as on March 2017 against the grants-in-aid bills drawn by 32 departments.

Recommendation: *The Finance Department should prescribe a time frame within which administrative departments collect pending utilisation certificates. The Finance Department should also ensure that till such time, administrative departments release no further grants to defaulting grantees.*

(Paragraph 3.5)

Outstanding Detailed Contingent bills

₹ 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 include 888 AC bills amounting to ₹ 533.07 crore (29.47 per cent) which were drawn in March 2017 alone, of which 151 AC bills (₹ 43.52 crore) were drawn on the last day of the financial year.

Recommendations: *The Finance Department should ensure that all controlling officers adjust AC bills pending beyond the prescribed period in a time bound manner, and also ensure that AC bills are not drawn merely to avoid lapse of budget. Disciplinary action may be initiated against officers/officials who draw funds on AC bills to avoid lapse of budget.*

(Paragraph 3.6)

Non-reconciliation of investments/loans and advances/guarantees

Figures relating to State Government investment, loans and guarantees in/to PSUs appearing in the Finance Accounts are based on information provided by the Finance Department, treasuries and administrative departments. It was however found that these figures

differed from the figures reported by the PSUs by ₹ 6,429.90 crore, ₹ 14,058.65 crore and ₹ 576.76 crore respectively.

Recommendation: *The Finance Department and the concerned administrative departments should work closely with the Accountant General (A&E) to reconcile the differences in records and accounts relating to State Government investments, loans and advances and guarantees extended to different State Government entities.*

(Paragraph 3.7)

Apportionment of balances on reorganisation of the State

The State Government is yet (since November 2000) to apportion ₹ 11,148.69 crore between the successor States of Bihar and Jharkhand.

Recommendation: *The State Government should expedite the apportionment of balances of ₹ 11,148.69 crore between the two successor States.*

(Paragraph 3.9)

Unadjusted Temporary Advances and Imprest

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.

Recommendation: *The Finance Department and the concerned administrative departments should review all unadjusted temporary advances and unspent amount, initiate action for their immediate adjustment, and take disciplinary action against officials/officers who have not adjusted/refunded the temporary advances and imprest within the stipulated time.*

(Paragraph 3.11)

Impact of incorrect accounting on Revenue Surplus and Fiscal Deficit

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.

(Paragraph 3.12)