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Appendices

Preface

This Report has been prepared for submission to the Governor of West Bengal under Article 151 of the Constitution.

Chapter I of this Report contains the basis and approach to the State Finances Audit Report, structure of the Report, structure of Government Accounts, budgetary processes, trends in key fiscal parameters like revenue surplus/deficit, fiscal surplus/deficit, etc. and fiscal correction path.

Chapters II and III of the Report contain Audit findings on matters arising from an examination of the Finance Accounts and Appropriation Accounts respectively, of the State Government, for the year ended 31 March 2023. Information has been obtained from Government of West Bengal, wherever necessary.

Chapter IV on 'Quality of Accounts and Financial Reporting Practices' provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

Chapter V of this Report presents 'Functioning of State Public Sector Enterprises'. This chapter presents the financial performance of 'Government Companies', 'Statutory Corporations' and 'Government controlled other Companies'.

The Reports containing the findings of Performance Audit and Compliance Audit in various Government departments, observations arising out of audit of Statutory Corporations, Boards and Government Companies and observations on Revenue Receipts are presented separately.

EXECUTIVE SUMMARY

Executive Summary

About the Report

This Report of the CAG of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) (at current prices) grew at an average growth rate of 10.02 *per cent* from ₹ 11,02,054 crore in 2018-19 to ₹ 15,54,992 crore in 2022-23.

There was 14.01 *per cent* growth in GSDP over 2021-22. The revenue receipts grew at 9.76 *per cent and* the percentage of revenue receipts over GSDP decreased from 13.06 *per cent* in 2021-22 to 12.58 *per cent* in 2022-23. The State's own tax revenue increased by 17.62 *per cent*. The total expenditure (revenue expenditure, capital expenditure and loans and advances) of the State of West Bengal increased from ₹ 2,28,745 crore in 2021-22 to ₹ 2,45,413 crore increasing by 7.29 *per cent*. Of this, revenue expenditure showed 6.03 *per cent* increase from 2021-22. Revenue deficit decreased from ₹ 32,000 crore to ₹ 27,295 crore registering 14.70 *per cent* decrease over 2021-22, while fiscal deficit decreased from ₹ 50,528 crore in 2021-22 to ₹ 49,787 crore in 2022-23, decreasing by 1.47 *per cent*.

Receipt-Expenditure Mismatch

The continuous mismatch between receipts and expenditure indicates rising fiscal stress. The State has different sources of receipts such as State Own Tax Revenue, Non-tax Revenue, Devolution of States' share in taxes, Grants in aid and transfers from the Union Government and non-debt capital receipts. The State Government's expenditure includes expenditure on revenue account as well as capital expenditure (assets creation, loans and advances, investments, *etc*).

From 2018-19 to 2022-23, revenue receipts grew from ₹ 1,45,975 crore to ₹ 1,95,544 crore, with an average annual growth rate of 8.55 *per cent*. Capital receipts, however, decreased from ₹ 71,693 crore to ₹ 70,325 crore during this period. The share of Grants-in-aid in revenue receipts rose from 17.68 *per cent* in 2018-19 to 19.59 *per cent* in 2022-23, indicating increased reliance on support from the Government of India. The State Government received ₹ 9,858 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹ 1,56,374 crore (14.19 *per cent* of GSDP) to ₹ 2,22,839 crore (14.33 *per cent* of GSDP). It consistently made up a significant portion (86 to 92 *per cent*) of the total expenditure during this period, growing at an average annual rate of 9.68 *per cent*.

Result of expenditure beyond means

The gap between the revenue receipt and revenue expenditure results in revenue deficit. The revenue deficit of the State increased to ₹ 27,295 crore (1.76 *per cent* of GSDP) in the current year from ₹ 10,399 crore (0.94 *per cent* of GSDP) in the year 2018-19.

The State Government spent ₹ 22,009 crore only on capital account. This was 8.97 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was just 31 *per cent* of the total borrowings. Thus, the borrowed funds were being used mainly for meeting current consumption and repayment of borrowings instead of capital creation/development activities.

The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State increased to ₹ 49,787 crore (3.20 *per cent* of GSDP) in 2022-23 from ₹ 33,485 crore (3.04 *per cent* of GSDP) in 2018-19.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions constituted 55 to 63 *per cent* of revenue expenditure during 2018-19 (55 *per cent*) and 2022- 23 (56 *per cent*).

Subsidies constitute major portion of the non-committed expenditure

Within the non-committed expenditure, there is an increasing trend of subsidies, which increased from ₹ 13,403 crore in 2018-19 to ₹ 17,087 crore in 2022-23. Subsidies for Food & Supplies constituted a significant portion, ranging from 70 *per cent* to 79 *per cent* of the total subsidies during this period.

Off-budget borrowings

During 2022-23, GoWB did not borrow outside the state budget. However, GoWB, during 2009-11, raised Cash Credit Loans (CCLs) through two State Public Sector Undertakings, for implementation of the scheme 'Potato Procurement 2010', in the shape of off-budget borrowings. In 2022-23, the State Government provided grants in aid of ₹ 16 crore for repayment and servicing of the off budget borrowings. This was in addition of the repayment and interests paid on the borrowings by the Government.

Contingent Liabilities on account of Guarantees

In 2022-23, the Government provided guarantees against borrowings of ₹ 17,677 crore. In the current year, the State Government had received guarantee commission of ₹ 9.90 crore, against the receivable commission of ₹ 22.60 crore.

Fiscal sustainability

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, etc. So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure, which includes salaries and wages, pension payments, interests *etc*. and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds, transfer to local bodies, *etc*.

FRBM requirements and compliance with fiscal parameters

The FRBM Act / Rules prescribes certain limits within which, revenue deficit, fiscal deficit, debt as a percentage of the Gross State Domestic Product (GSDP) should be, and similarly for guarantees as a percentage of revenue receipts of the previous year. In 2022-23, revenue deficit was 1.76 *per cent* as against the limit of 1.82 *per cent*; fiscal deficit was 3.20 *per cent* as against the limit of 4.00 *per cent*; debt was 37.63 *per cent* as against limit of 34.30 *per cent* and guarantees given were 11.38 *per cent* as against the prescribed limit of 90 *per cent*.

As per the debt stabilisation analysis, the outstanding public debt of the Government of West Bengal grew at an average growth rate of 10.09 *per cent* from ₹ 3,40,422 crore in 2018-19 to ₹ 5,10,763 crore in 2022-23. Debt-GSDP ratio of West Bengal has increased from 35.69 *per cent* in 2018-19 to 37.63 *per cent* in 2022-23, which indicates that debt stabilisation may not be possible in near future.

During the years 2021-22 and 2022-23, though the Domar gap (expressed as g-r where ‘g’ indicates real economic growth rate and ‘r’ denotes real interest rate) was positive, but the primary deficit kept on increasing except in 2022-23. During 2021-22, real growth was high (10.76 *per cent*) due to low base of 2020-21 (COVID year) resulting in significant positive Domar Gap (8.35 *per cent*). Further, substantial proportion of public debt receipts was being used for repayment for borrowings, which ranged between 40.65 *per cent* and 42.38 *per cent* during 2021-22 and 2022-23. Thus, it becomes evident that depending solely on economic growth (expressed as g-r>0 from 2021-2022) would not suffice to cover the debt obligations of the State.

Going by the analysis and results as discussed above, the finances of the State of West Bengal are marked by increasing trend of liabilities which pose risk to target of debt stabilisation and debt sustainability.

Budget performance

Aggregate expenditure outturn

Budget performance in terms of budgetary intent and budget implementation is examined to assess extent to which the aggregate expenditure outturn reflects the amount originally approved in terms of saving. In the Revenue (Voted) section, deviation in outturn compared with Budget Estimates (BE) was (-) 12.58 *per cent* in respect of 54 grants. In the Capital (Voted) and Capital (Charged) sections, deviation in outturn compared with BE were (-) 37.58 *per cent* and (-) 50.74 *per cent*, respectively.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution have contributed to variance in expenditure composition. This measure indicates the extent of variation between the final budget and the actual expenditure.

It was noticed that supplementary provisions of ₹ 8,773 crore during the year 2022-23 in 32 grants proved unnecessary, as the expenditure did not come up even to the level of original provisions.

Regularization of Excess over Grants/ Appropriations

The State Government has to get excesses over grants/appropriations regularised by the State Legislature as per Article 205 (1) (b) of the constitution. It was observed that in 2022-23 there was excess expenditure of ₹ 4,063 crore under 12 grants which required regularization. Further, excess disbursements of ₹ 48,953 crore pertaining to the years 2009-22 were yet to be regularized.

Quality of Accounts and Financial Reporting

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

Misclassification in accounts

In respect of expenditure of ₹ 90.03 crore, use of the Minor Head '800-other expenditure' could have been avoided, had the Major/Sub Major heads classification been correct.

Compliance with IGAS

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government partly complied with IGAS- 1: Guarantees given by the Government – Disclosure requirements guarantees, IGAS- 2: Accounting and classification of Grants-in-aid and IGAS-3: Loans and Advances made by the Government, respectively.

Operation of PD Accounts

Checking of treasuries, conducted in 2022-23, in respect of transactions for the year 2021-22, revealed that only 13 out of 159 Administrators of PD Accounts had reconciled and verified their balances with the treasury figures.

Funds to Single Nodal Agency

The Government of India and the State Government have introduced system of Single Nodal Agency (SNA) for implementation and fund flow for each Centrally Sponsored Scheme (CSS). The share of the Government of India and the State Government is transferred to the Bank Account of the SNA lying outside the Government Account. As per information available on the PFMS portal, ₹ 24,555 crore (₹ 12,108 crore share of the Government of India and ₹ 12,447 crore share of the State Government) was transferred to the SNAs during 2022-23. As per data available on PFMS Portal, ₹ 15,656 crore was lying unspent in the bank accounts of SNAs as on 31 March 2023. Detailed vouchers, in support of the actual expenditure, were not available at the Treasury.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 5,08,222 outstanding UCs of ₹ 3,20,774 crore were pending as on 31st March 2023. Further, no mechanism has been prescribed by the State Government mandating depiction of the Central and the State share in the UCs. Hence, audit could not ascertain the amount of Central and State share for which UCs were pending out of the total pending amount of UCs.

DC bills against AC bills

Similarly, despite the requirement of submitting Detailed Contingency (DC) Bills against the advance money withdrawn through Abstract Contingency (AC) Bills, a total of 7,703 DC bills, in respect of AC bills aggregating ₹ 1,238 crore, had not been submitted.

Funds outside Government Account

It was noticed that ₹ 1,834.43 crore collected on account of cess, had not been transferred to the designated funds.

Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants;

non-submission of DC bills against AC bills; part compliance with IGAS-1, IGAS-2 and IGAS-3; funds remaining outside Government accounts; and non-supply of details of expenditure from SNAs have impacted the quality of accounts adversely.

Working of State Public Sector Undertakings

As on 31 March 2023, there were 84 State Public Sector Enterprises (SPSEs) in West Bengal, including nine Statutory Corporations and 75 Government Companies (including 18 inactive Government Companies). Audit noticed that the prescribed timelines regarding submission of Financial Statements were not adhered to by 62 SPSEs whose 163 accounts were in arrears. Out of the total profit of ₹ 1,715.37 crore earned by 33 working SPSEs, 83.39 *per cent* was contributed by four SPSEs only. Out of total loss of ₹ 832.53 crore incurred by 32 working SPSEs, 57.37 *per cent* was contributed by five SPSEs.

The State Government may impress upon the managements of SPSEs to ensure timely submission of their financial statements. In the absence of finalised accounts, Government investments in such SPSEs remain outside the oversight of the State Legislature. The State Government may also analyse the reasons of losses in loss making SPSEs and initiate steps to make their operations efficient and profitable.

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