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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 examination of the Finance Accounts and Appropriation Accounts respectively, of the State Government, for the year ended 31 March 2024. 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.

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.

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

EXECUTIVE SUMMARY

Executive Summary

About the Report

This Report of the CAG of India is on the State Finances for the year 2023-24. 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 insights into fiscal sustainability, performance against the budget intent, revenue and expenditure projection, the reasons for variations and their impact.

Gross State Domestic Product (GSDP) at current prices grew at a CAGR of 9.59 *per cent* from ₹ 11,79,127 crore during 2019-20 to ₹ 17,00,939 crore during 2023-24.

There was 11.04 *per cent* growth in GSDP over 2022-23. The revenue receipts grew at 2.42 *per cent and* the percentage of revenue receipts over GSDP decreased to 11.77 *per cent* in 2023-24 from 12.77 *per cent* in 2022-23. The State's own tax revenue increased by 7.63 *per cent*. The total expenditure (Revenue Expenditure, Capital Expenditure and disbursement of loans and advances) of the State of West Bengal increased by 4.20 *per cent* to ₹ 2,55,716 crore in 2023-24 from ₹ 2,45,413 crore in 2022-23. Of this, Revenue Expenditure showed 1.40 *per cent* increase while Capital Expenditure showed an increase of 31.60 *per cent*, from 2022-23.

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*).

Revenue Receipts grew at a CAGR of 8.80 *per cent* from ₹ 1,42,914 crore in 2019-20 to ₹ 2,00,268 crore in 2023-24. Capital Receipts too, increased from ₹ 75,766 crore to ₹ 81,627 crore during this period. Central tax transfers and Grants-in-aid together contributed 53.45 *per cent*. This is indicative of the fact that West Bengal's fiscal position is largely influenced by Central transfers. The State Government received ₹ 1,07,044 crore as Central tax transfers and Grants-in-aid in the year.

Revenue Expenditure is incurred to maintain the current level of services and payment for the past obligations. As such, it does not result in any addition to the State's infrastructure and service network. Revenue Expenditure grew at a CAGR of 8.58 *per cent* from ₹ 1,62,575 crore (13.79 *per cent* of GSDP) in the

2019-20 to ₹ 2,25,959 crore (13.28 *per cent* of GSDP) in the 2023-24. It consistently made up a significant portion (88 to 92 *per cent*) of the total expenditure during this period.

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 ₹ 25,691 crore (1.51 *per cent* of GSDP) in the current year from ₹ 19,661 crore (1.67 *per cent* of GSDP) in the 2019-20, though it decreased slightly as a percentage of the GSDP.

The State Government spent ₹ 28,963 crore on capital account. This was 11.33 *per cent* of the total expenditure in the FY 2023-24. Capital Expenditure was only 36 *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 ₹ 53,992 crore (3.17 *per cent* of GSDP) in 2023-24 from ₹ 36,831 crore (3.12 *per cent* of GSDP) in the FY 2019-20.

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. From the FY 2019-20 to 2023-24, the Committed Expenditure ranged between 56 to 63 *per cent* of Revenue Expenditure. In the Committed Expenditure, the share of Salaries and Wages constituted 48 to 51 *per cent*, while the share of expenditure on Pension and Interest payments was 18 to 22 *per cent* and 30 to 33 *per cent*, respectively.

Inflexible and Non-Committed Revenue Expenditure

Besides Committed Expenditure as discussed above, there are certain items of Inflexible Expenditure which cannot be ordinarily altered or are statutorily required on an annual basis. Inflexible Expenditure, as a percentage of Revenue Receipts, increased to 3.14 *per cent* in the FY 2023-24 from 2.12 *per cent* in the FY 2022-23. Increase in the contribution to reserve funds by ₹ 1,639 crore, mainly helped this hike.

Non-Committed Revenue Expenditure (other than committed and inflexible), in the current year, decreased by 1.95 per cent (₹ 1,908 crore) over the FY 2022-23 backed by the decrease in expenditure on subsidies by ₹ 6,611 crore.

Off-budget borrowings

During the FY 2023-24, GoWB did not borrow outside the state budget. Scrutiny, however, revealed that 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 the FY 2023-24, the State Government provided grants in aid of ₹ 15 crore for repayment and servicing of the off-budget borrowings.

Contingent Liabilities on account of Guarantees

In the FY 2023-24, the Government provided guarantees against borrowings of ₹ 16,445 crore. In the current year, the State Government had received guarantee commission of ₹ 5.00 crore, against the receivable commission of ₹ 313.92 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 transfer to reserve funds, devolution to local bodies, *etc*.

- ***FRBM requirements and compliance with fiscal parameters***

The FRBM Act / Rules prescribes certain limits with regard to Revenue Deficit, Fiscal Deficit and debt as percentage of the Gross State Domestic Product (GSDP). In the FY 2023-24, Revenue Deficit was 1.51 *per cent* of the GSDP as against the limit of 1.80 *per cent*; Fiscal Deficit was 3.17 *per cent* as against the limit of 3.50 *per cent*; debt was 37.91 *per cent* as against limit of 34.30 *per cent*.

- ***Debt Sustainability Analysis***

The outstanding debt of the Government of West Bengal grew from ₹ 4,33,475 crore in the FY 2019-20 to ₹ 6,44,817 crore in the FY 2023-24. Debt-GSDP ratio of the State has also increased from 36.76 *per cent* in the FY 2019-20 to 37.91 *per cent* in the FY 2023-24, indicating that State's debt burden is substantially higher compared to its economic output.

Domar criteria shows that the Growth Interest Differential (GID) defined as the difference between real growth and real effective rate of interest on overall interest-bearing debt, remained favorable during post-pandemic years till the FY 2023-24 which suggests that economic growth was strong enough to recover the cost of borrowing. Nevertheless, debt burden remained above the target of 34.30 *per* cent as stipulated in WBFRBM (Amendment) Act 2020.

Further, substantial portion (91.90 *per cent*) of gross borrowings was being used for repayment implying that only 8.10 *per cent* of net borrowings was available for utilisation. Moreover, the ratio of Interest Payment to Revenue Receipts increased from 20.46 *per cent* in 2022-23 to 21.28 *per cent* in 2023-24 which was above the ceiling of 20.11 *per cent* prescribed in the Fiscal Policy Strategy Statement for the FY 2023-24. Increasing trend of this ratio indicates unsustainable debt trajectory.

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 (-) 13.50 *per cent* in respect of 51 grants. In the Capital (Voted) and Capital (Charged) sections, deviation in outturn compared with BE was (-) 34.18 *per cent* in respect of 47 grants and (-) 49.93 *per cent* in respect of 15 grants, respectively.

Expenditure composition outturn

Budget performance also looks at the extent to which the re-allocation between the main budget categories during the execution has 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 ₹ 8,053 crore during the year 2023-24 in 49 grants proved unnecessary, as the expenditure did not come up even to the level of the 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 2023-24 there was excess expenditure of ₹ 4,248 crore under 12 grants which required regularization. Further, excess disbursements of ₹ 53,015 crore pertaining to the years 2009-23 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.

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, IGAS-3: Loans and Advances made by the

Government, respectively. Moreover, State Government has not complied the requirements of IGAS-4: Prior Period Adjustment.

Operation of PD Accounts

Rule 6.08 (5) of the West Bengal Treasury Rules stipulates that the holder of the Personal Deposit (PD) Account shall, immediately after end of the financial year, make necessary verification and reconciliation of the balances with the treasury. It was noticed that there was a balance of ₹ 2,998 crore in 159 PD Accounts as on 31 March 2024. Non-transfer of unspent balances, lying in PD Accounts, to the Consolidated Fund of the State, entails the risk of misuse of public funds, fraud and misappropriation. Checking of treasuries, conducted in 2023-24, in respect of transactions for the year 2022-23, revealed that only six out of 159 Administrators of PD Accounts had reconciled and verified their balances with the treasury figures.

Utilisation Certificates against conditional grants

Despite the requirement of submitting Utilisation Certificates (UCs) against conditional grants within a stipulated time period, 5,48,496 UCs in respect of grants aggregating ₹ 2,56,107 crore were outstanding as on 31 March 2024. Pendency in the submission of UCs is fraught with the risk of fraud and misappropriation of funds.

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, DC bills against a total of 6,081 AC bills aggregating ₹ 662 crore, had not been submitted as of 31 March 2024. Non-submission of DC bills within the prescribed time is a breach of financial discipline and enhances risk of misappropriation of public money and is an unhealthy practice.

Funds outside Public Account of the State

Cess proceeds (Other than proceeds through Labour Cess and those cess which have been collected under Cess Act *viz.* West Bengal Rural Employment and Production Act, 1976 and West Bengal Cess Act 1880) amounting to ₹ 1,543.47 crore, credited to the Consolidated Fund of the State, during FY 2023-24 had not been transferred as the State Government did not create specific fund accounts to transfer these proceeds. Non-transfer of cess resulted in understatement of Revenue Deficit and Fiscal Deficit to that extent.

Compliance with prevailing rules and codal provisions is 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 and non-compliance with IGAS-4, funds remaining outside Public Account have impacted the quality of accounts adversely.

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