EXECUTIVE SUMMARY

Background

In July 2005, Haryana Government enacted the "Fiscal Responsibilities and Budget Management Act" (FRBM). It laid down a reform agenda through a fiscal correction path in the medium term with the long term goal of securing growth stability for its economy. The Government's commitment to carry forward these reforms is reflected in the policy initiatives announced in its subsequent budgets. The benefits of FRBM legislation have been realised to some extent in terms of reducing revenue / fiscal deficit and minimising liabilities. However, a host of 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 has done well in establishing an institutional mechanism on fiscal transparency and accountability.

The Comptroller and Auditor General's (C&AG) 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 Report, it was felt that the audit findings on State finances remained camouflaged because the majority of audit findings were on compliance and performance audits. The obvious fallout of this all-inclusive reporting was that the audit findings on financial management did not receive proper attention. In recognition of the need to bring State finances to centre-stage once again, a stand-alone report on State Government finances was considered an appropriate audit response to this challenge. Accordingly, from the report year ended March 2009 onwards, C&AG has decided to bring out a separate volume titled 'Report on State Finances.'

The report

Based on the audited accounts of the Government of Haryana for the year ended March 2009, 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 the Haryana 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 State implementing agencies through the off-budget route.

Chapter 2 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 3 is an inventory of the Haryana Government's compliance with various reporting requirements and financial rules. The report also compiles the data collated from various government departments/organisations in support of the findings.

Audit findings and recommendations

Return to Fiscal Correction: The Government's previous years' strength in achieving deficit targets, suffered a setback in the current year due to the slump in the economy, impacting its revenue receipts. The Sixth Pay Commission's recommendations also put pressure on the committed expenditure. The State can still achieve the FRBM targets through concerted efforts for better tax compliance, reductions in tax-collection costs, focusing on regaining revenue arrears and pruning unproductive expenditure.

Incomplete projects: Twenty nine (Irrigation and Buildings and Roads) projects, scheduled for completion between April 2007 and March 2009, are still incomplete. Time and cost overruns of these incomplete projects will have to be reduced so as to utilise the time-bound benefits for the people of Haryana.

Review of Government investments:

The average return on Haryana Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.09 to 0.18 *per cent* in the past five years, whereas its average interest outgo was in the range of 7.43 to 9.20 *per cent*. This is an unsustainable proposition. The State Government should therefore, seek better value for money in investments as otherwise, high cost borrowed funds invested in projects with low financial returns will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritised with full justification for the high cost borrowings. Time has come to review the working of State-owned public sector undertakings incurring huge losses and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down the sick units by disinvesting their equity.

Debt sustainability: As per the HFRBM Act 2005, total debt including contingent liabilities should not exceed 28 *per cent* of the estimated GSDP for the year. The States total liability including guarantees during 2008-09 at Rs 36,853 crore stood at 20 *per cent* of the GSDP which was well within the parameters of the HFRBM Act 2005 and higher than that projected in the Medium Term Fiscal Policy Statements (MTFPS) (Rs 35,005 crore) for 2008-09. Re-emergence of a revenue deficit after three years indicates that some portion of high cost borrowings are being used by the State Government for meeting its current expenditure. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be fully met from revenue receipts. Efforts should be made to return to the state of primary surpluses and zero revenue deficit as soon as possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from Government of India to the State implementing agencies: Funds flowing directly to implementing agencies through the off-budget route inhibits FRBM requirements of transparency and therefore bypasses accountability. There is no single agency monitoring their use and there is no readily available data on the amounts spent in any particular year on major flagship and other important schemes. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).

Financial management and budgetary control: Slow progress in implementation of various social and developmental programmes in the State left an overall saving of Rs 3719.35 crore even after offset of excess of Rs 302.63 crore. The excess expenditure requires regularisation under Article 205 of the Constitution of India. 'Public Debt' posted large savings persistently for the last five years. There were instances of inadequate provision of funds and unnecessary or excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year, leaving no scope for utilising these funds for other developmental purposes. Detailed contingent 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 lacking in various Government departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were noticed in submission of Annual Accounts by autonomous bodies and departmental undertakings. There were instances of losses and misappropriations for which departmental action was pending for long periods. Departmental inquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.