Executive Summary

Background

In January 2006, the Madhya Pradesh Government enacted the Fiscal Responsibilities and Budget Management (FRBM) Act. 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 the FRBM legislation have been realised in terms of achieving of revenue and fiscal deficit targets relative to GSDP and keeping the ratio of total liabilities to GSDP within the ceiling limit of 40 *per cent* prescribed under the FRBM Act. 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 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 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 Madhya Pradesh 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 the Finance Accounts and gives an assessment of the Madhya Pradesh Government's fiscal position as at 31 March 2009. It provides an insight into the 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 Madhya Pradesh 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

Management of fiscal imbalances and resource mobilisation: The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit/surplus – indicated a declining trend in 2008-09 as the revenue surplus decreased and the primary surplus became primary deficit. Moreover, the fiscal deficit substantially increased relative to the previous year. Relative to GSDP there were no improvement in the State's own resources during the current year over the previous year.

Government investments and interest receipts on loans and advances: The average return on the investments made by the Government was 0.52 *per cent* during last three years while the Government paid an average interest rate of 7.61 *per cent* on its borrowings during 2006-09. Interest receipt as a percentage of outstanding loans and advances was meagre as against the interest percentage of payments to the outstanding fiscal liabilities of the State Government, resulting in a difference of 6.29 *per cent* between interest payments and interest receipts. The Government should invest in the high cost borrowings more judiciously to ensure better returns.

The increasing fiscal liabilities accompanied with negligible rates of return on Government investments and inadequate recovery of interest on loans and advances might put fiscal stress on the State in the medium to long run unless suitable measures are initiated to make the investments including loans and advances commercially viable; compress the Non Plan revenue expenditure (NPRE) and mobilize additional resources both through tax and non-tax sources in the ensuing years.

Expenditure Management : The expenditure pattern of the State revealed that the revenue expenditure as a percentage of the total expenditure continued to share a dominant proportion of total expenditure at 77 *per cent* during 2008-09, leaving less resources for expansion of services and creation of assets. The NPRE during the year remained significantly higher than the normative level assessed by the Twelfth Finance Commission (TFC). Further, three components (salary and wages expenditure, pension payments and interest payments) constituted about 69 *per cent* of the NPRE during the year. Decrease in the proportion of capital expenditure on social and economic services to the total expenditure and revenue expenditure on operation and maintenance of the existing social and economic services during the current year over previous year indicated decline in quality of services.

The expenditure pattern both in the education and health sectors needs correction in the ensuing year as per the norms of the TFC accordingly to which Non-Plan salary expenditure under education and health and family welfare should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period.

Oversight of funds transferred directly from Government of India to State implementing agencies: Funds flowing directly to State implementing agencies through the off-budget routine inhibits FRBM requirements of transparency and therefore bypasses accountability. 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 8,352.16 crore. Excess expenditure of Rs.4,686 crore pertaining to the period 1993-94,1994-95 and 1997-98 to 2007-08 requires regularisation under Article 205 of the Constitution of India. In the case of six grants, savings were observed in 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 utilizing these funds for other developmental purposes. Detailed bills were not submitted for large amounts of advances drawn on abstract contingent bills. There was unreconciled expenditure of Rs.286.68 crore and transfers of Rs.289.59 crore to 8443-Civil Deposit and 800-Other Deposits. Moreover, Rs.1,488 crore was lying in 729 Personal Deposit Accounts as on 31 March 2009. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute 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. This was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were noticed in the 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.