Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Tamil Nadu Government enacted its Fiscal Responsibilities and Budget Management (FRBM) Act, entitled the Tamil Nadu Fiscal Responsibility Act, 2003, with a view to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium-term fiscal framework. The State Government's commitment to carry forward these reforms is largely reflected in the policy initiatives announced in its subsequent budgets. The benefits of FRBM legislation have been realised to a great extent already, in terms of reduction in deficit indicators.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of data on State finances. This data, however, does not give the big picture of the status of financial management including the debt position, off-budget liabilities, cash management etc. for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's 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 Reports, it was felt that the audit findings on State finances remained camouflaged because the majority of audit findings were on compliance and performance aspects. 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, a stand-alone report on State Government finances was considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, the Comptroller and Auditor General has decided to bring out a separate volume titled 'Report on State Finances'.

The report

Based on the audited accounts of the Government of Tamil Nadu for the year ending March 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of the Government's fiscal position as at 31 March 2009. It provides an insight into trends in committed expenditure and borrowing pattern, besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

Chapter II 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 III is an inventory of the Government's compliance with various reporting requirements and financial rules. The report also has additional data collated from several sources in support of the findings.

Audit findings and recommendations

Fiscal discipline: The Government achieved a revenue surplus in 2005-06 and has retained it, albeit with a steep fall in the quantum of revenue surplus during the current year due to the increases in Social Service and Economic Service expenditure and the slump in the economy, impacting its revenue receipts. The State has also achieved the target set for containing the fiscal deficit within three *per cent* of the Gross State Domestic Product.

Need to compress Non-Plan expenditure: The revenue expenditure was 81.78 *per cent* of the total expenditure, of which 80.33 *per cent* was under Non-Plan. Non-Plan expenditure increased by 23.52 *per cent* against the increase of 27 *per cent* in Plan expenditure under Revenue heads and 24.96 *per cent* in Plan expenditure under Capital heads. Moreover, the committed expenditure comprising salaries, pension, interest payments and subsidies constituted 78.44 *per cent* of Non-Plan revenue expenditure during 2008-09.

Review of Government investments: The average return on the Government's investments in statutory corporations, rural banks, joint stock companies and co-operatives was 0.50 *per cent* in the last three years while the Government paid an average of 8.4 *per cent* as interest on its borrowings during this period. This was obviously an unsustainable proposition. The Government should, therefore, hasten to seek better value for money in its investments. Otherwise, high-cost borrowed funds invested in projects with low financial returns will continue to strain the economy.

Increasing fiscal liabilities accompanied by negligible rates of return on Government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt in the medium to long run unless suitable measures are initiated to compress the Non-Plan revenue expenditure and mobilize additional resources both through tax and non-tax sources.

Delays in completion of projects: Inordinate delays in completion of projects, particularly irrigation projects in the State resulted in blocking of capital. Therefore, adequate priority should be given for project planning and implementation mechanism so as to address the inadequacies and to avoid further time and cost overruns.

Debt sustainability : Despite positive indicators in terms of debt stabilisation and increased net availability of borrowed funds, the negative resource gap (Rs 4,862 crore) was a matter of concern. This was a result of insufficiency of the incremental non-debt receipts (Rs 8,443 crore) to meet the incremental primary expenditure (Rs 13,428 crore).

Financial management and budgetary control: During 2008-09, there were overall savings of Rs 7,311.45 crore, which were a result of the total savings of Rs 7465.10 crore being offset by the excess of Rs 153.65 crore. This excess requires regularization under Article 205 of the Constitution of India. Cases were noticed where the amounts surrendered were in excess of the actual savings, indicating lack of or inadequate budgetary control. As against savings of Rs 1,192.46 crore, the amount surrendered was Rs 1,286.77 crore, resulting in excess surrender of Rs 94.31 crore. There were 14 grants/appropriations in which savings of Rs 538.34 crore occurred but the amounts had not been surrendered by the concerned departments. Similarly, out of total savings of Rs 5,203.01 crore under 34 grants/appropriations, Rs 1,758.56 crore were not surrendered. Budgetary controls should be strengthened 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 unsatisfactory which was evident from the delays in furnishing utilization certificates against the loans and grants received from various grantee institutions. Submission of Annual Accounts was delayed by 228 autonomous bodies/authorities receiving Government grants. The Government reported 503 cases of misappropriation, defalcation, theft, losses etc., involving Government money amounting to Rs 9.47 crore up to March 2009, on which final action was pending. Departmental enquiries in respect of all misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent such cases in future.