Executive Summary

Background

Andhra Pradesh Government enacted "Fiscal Responsibility and Budget Management (FRBM) Act" in October 2005 as recommended by the Twelfth Finance Commission (TFC). It sets out a reform agenda through fiscal correction path in the medium term with long-term goal of securing growth stability for its economy. The State Government's commitment to carry forward these reforms is largely reflected in certain policy initiatives announced in the budgets subsequently. While the benefits of FRBM legislation have been realized to a great extent already, in terms of reduction in major deficit indicators etc. the State Government's resolve to implement VAT, introduction of New Pension Scheme, ceiling on Government guarantees and a host of other 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 promote fiscal stability.

The State Government has established an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of outcome budgets. These outcome indicators tend to serve the limited purpose of measuring the department-wise performance against the targets.

The Comptroller and Auditor General's civil reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for over three years since the FRBM legislation. Since the Audit comments on State Finances formed part of the civil audit report, it was felt that these comments remained camouflaged in the large body of audit findings on compliance and performance audits and hence did not receive due 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 appropriate. Accordingly, from the report year 2009 onwards, it has been decided to bring out a separate volume titled "Report on State Finances".

The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ending March, 2010, 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 Andhra Pradesh Government's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of central funds transferred directly to the State Implementing Agencies through off-budget route. It also makes an assessment of the adequacy of the State's fiscal priorities to developmental, social sectors and capital expenditure.

Chapter 2 is based on Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Andhra Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Return to Fiscal Correction: The Government of Andhra Pradesh has been largely achieving the Fiscal Reform targets every year in post FRBM legislation period. The State registered revenue surplus since 2006-07 and the fiscal deficit was well within the ceiling prescribed by the FRBM Act as relaxed by the Government of India for 2009-10 (Para 1.11.1). However, it was noticed that the State's own tax and non-tax revenue marginally declined during 2009-10 over the previous year (Para 1.5.1). The arrears of revenue increased by ₹ 5646 crore and stood at ₹ 12154 crore at the end of 31 March 2010 (Para 1.5.3).

The Government should ensure better tax compliance to improve its own tax revenue and to reduce the arrears of revenue.

High incidence of non-plan revenue expenditure (NPRE): The revenue expenditure constituted 80 *per cent* of total expenditure during 2009-10. The NPRE component of revenue expenditure exceeded significantly both the normative projections of TFC and State's projections in its FCP for 2009-10 (Para 1.6.1). The committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 81 *per cent* of NPRE during 2009-10. However during the current year the salary expenditure was 37 *per cent* of revenue expenditure net of interest and pension payments as against the TFC recommendations of 35 *per cent* (Para 1.6.2).

Government should initiate suitable measures to reduce the non-plan revenue expenditure.

Priority to capital expenditure: The capital expenditure in 2009-10 increased over the previous year and constituted 17 *per cent* of total expenditure. It was however, below the projections made in MEFS for 2009-10 (Para 1.6). Expenditure incurred on the incomplete projects constituted 39 *per cent* of the progressive capital expenditure at the end of March 2010 (Para 1.8.1). State Government gave adequate fiscal priority to capital expenditure as the ratio of capital expenditure to aggregate expenditure is higher than the average of general category states during 2005-06 and 2009-10 (Para 1.7.1).

Government should incur capital expenditure on the projects which could derive envisaged benefits in time.

Adequate thrust to development and social sector expenditure: State Government gave adequate fiscal priority to development expenditure. The priority given to social sector was, however not adequate as the ratio of expenditure on social sector to aggregate expenditure was lower than the average ratio of general category states during 2005-06 and 2009-10 (Para 1.7.1).

Government may consider re-prioritisation of outlays in favour of social sector.

Incomplete projects: Inordinate delay in completion of 206 projects led to huge cost overrun of ₹ 27235 crore and blocking of ₹ 36165 crore spent on these projects (Para 1.8.1).

The State can put in place an action plan to complete these projects in a time frame so that people derive envisaged benefits in time.

Review of Government investments: The average return on Government investment in Statutory Corporations, Government and Joint Stock Companies and Co-operative Banks and Societies was less then one *per cent* during the last five years while the Government paid average interest rate of 8.37 *per cent* on its borrowings during last five years (Para 1.8.2). This is obviously an unsustainable proposition.

The State Government should therefore hasten to seek better value for money in investment. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification for the high-cost borrowings.

Prudent cash management: The cost of holding surplus cash balances is high. Closing cash balance at the end of the current year increased over previous year and the interest received on investment of cash balances in GOI Treasury bills was only 5.61 *per cent* while the Government borrowed on an average rate of 7.86 *per cent* during 2009-10 (Para 1.8.5).

Proper debt management through advanced planning could minimize the need to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the State does not avail of overdraft facility.

Fiscal liabilities: The total fiscal liabilities at the end of the current year stood at 30.11 *per cent* of GSDP against a ceiling of 35 *per cent* prescribed in the FRBM Act (Para 1.9.2). Since the 13th Finance Commission has recommended that all States should bring down their fiscal liabilities to 25 *per cent* of GSDP by 2014-15, the State Government may adopt a suitable strategy to ensure this target.

Government needs to reduce the fiscal liabilities by a better debt management.

Debt sustainability: The resource gap in the State has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not even sufficient to meet the incremental primary expenditure and interest burden (Para 1.10).

The State needs to step up its resource mobilisation to maintain debt stability and in turn sustainability in the medium to short term.

Oversight of funds transferred directly by the Centre to the State implementing agencies: Funds flowing directly to the implementing agencies through off-budget route inhibit FRL requirements of transparency and therefore escape accountability. During the current year, Government of India transferred ₹ 6964 crore directly to the State implementing agencies for implementation of various Central Schemes/programmes without routing through the State budget. There is no single agency monitoring its end use and no data is readily available on the amount spent in any particular year on major flagship and other important schemes (Para 1.4.2).

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 Principal Accountant General (A&E).

Financial management and budgetary control: During 2009-10, the overall saving of ₹ 24066 crore was the net effect of saving of ₹ 24176 crore and excess of ₹ 110 crore, which required regularisation under Article 205 of the Constitution of India (Para 2.2). There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Besides, there was a rush of expenditure at the end of the year. 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 development purposes. Budgetary procedure and expenditure control in Social Welfare Department and Energy Department were weak.

Efforts should be made by all the departments to submit realistic budget estimates keeping in view the trends in receipts and expenditure in order to avoid large scale saving/excess, re-appropriations and surrenders at the fag end of the year. Re-appropriations should be judicious to avoid excessive and insufficient funds and specific reasons for re-appropriations and final saving/excess should be given. Savings should be surrendered as and when they were noticed without waiting till the end of the financial year.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing detailed contingent bills for the amounts drawn on abstract contingent bills and utilization certificates against the loans and grants from various grantee institutions (Paras 3.1 and 3.2). Delays were also noticed in submission of annual accounts by some autonomous bodies and departmental undertakings (Paras 3.3 to 3.5). Substantial amounts of receipts (₹ 2116.52 crore) and expenditure (₹ 10832.08 crore) were classified under omnibus minor head '800-Other Receipts/Expenditure' during 2009-10 (Para 3.7). There were instances of embezzlements, defalcation, misappropriations (Para 3.6) and overpayment of pension/ family pension. Calamity Relief funds of ₹ 2.50 crore were diverted for payment of arrear bills for construction of Collectorate buildings complex. An amount of ₹ 55.97 crore drawn from PD accounts was kept in Banks by the Administrators to avoid lapsing (Para 3.9).

Government should take concrete steps to minimize the drawal of funds on AC bills and to submit the DC bills within the prescribed time limit for the amount drawn on AC bills. Departments should ensure timely submission of Utilisation Certificates for the grants released for specific purposes and the annual accounts of autonomous bodies. Government should ensure that the proforma accounts of all Commercial Undertakings are updated and for accountability and improving efficiency. Classification of huge receipts and expenditure under omnibus minor head '800-Other Receipts/Expenditure' should be avoided for greater transparency in financial reporting. Departmental enquiries in all fraud/misappropriation cases should be expedited and internal controls strengthened to prevent such cases.