

Executive Summary

Background

The Delhi Government has put in place an institutional mechanism on fiscal transparency and accountability as is 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. They do not, however, give the big picture of the status of financial management including debt position, for the benefit of the state legislature and other stakeholders.

Although CAG's reports in the past have commented upon the Government's finances, since these formed part of the civil audit report, it was felt that the audit findings on state finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring state finances to centrestage once again, a stand-alone report on State Government finances is considered an appropriate audit response. 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 Delhi 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 audit of Finance Accounts and provides a broad perspective of the finances of Delhi Government for the year ending March 2010. It also analyses critical changes in the major fiscal aggregates relating to the previous years keeping in view the overall trends during the last five years.

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

Chapter 3 is an overview on the Delhi Government's compliance with various financial rules, procedures and directives during the year ended 31 March 2010. The report also has an appendage of additional data collected from several sources in support of the findings.

Audit findings and recommendations

Adequate thrust to Development expenditure

In both the years under consideration viz. 2005-06 and 2009-10, Aggregate Expenditure as a percentage of Gross State Domestic Product is lower in Delhi compared to general category states' average. In both the years under consideration Social Sector Expenditure as a proportion of Aggregate Expenditure was higher in Delhi than the general category states' average indicating adequate fiscal priorities to Social Sector Expenditure. In case of Development Expenditure, adequate fiscal priority was given in 2005-06 and 2009-10 (percentage of Development Expenditure/Aggregate Expenditure for Delhi was higher than general category states). Capital Expenditure as a proportion of Aggregate Expenditure was lower in Delhi than the general category states' average in 2005-06 indicating low fiscal priority to Capital Expenditure. However, this position was reversed during the current year when the Capital Expenditure/Aggregate Expenditure ratio for Delhi was much higher than the general category states' average. The ratio of expenditure to Aggregate Expenditure on Development, Social Sector, Education and Health in 2009-10 was higher than the ratio in general category states.

Review of the State Government Investments

The average return on the investment was a meagre 0.36 *per cent* in the last three years (2007-08 to 2009-10) while the Government paid, on an average, interest rate of 9.75 *per cent* on its borrowings during the same period (Para 1.7.1). *The State Government should, therefore, hasten to seek better value for money in investments, as otherwise high-cost borrowed funds will continue to burden investments in projects with low financial returns. 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.*

Revenue Arrears

The arrears of revenue as on 31 March 2010 in respect of some principal heads of revenue amounted to ₹ 9945.01 crore, of which ₹ 9944.38 crore related to taxes on sales, trade etc.

Loss of Revenue due to Evasion of Taxes, Write offs/Waivers and Refunds

During the year 2009-10, the Department of Trade and Taxes reported detection of 1451 cases of evasion of tax involving discrepancies in stock figures and cash figures of ₹ 45.64 crore. The Government may take necessary steps to plug-in the loopholes to prevent the loss of revenue due to evasion of taxes etc.

Financial management and budgetary control

During 2009-10, there was overall saving of ₹ 1087.96 crore offset by excess of ₹ 5.62 crore, which requires regularization under Article 205 of the Constitution of India (para 2.3.5). The

savings were mainly due to release of less grants to various organisations. There were persistent savings during 2005-10 in respect of 'Education' and in 'Medical and Public Health' grants (para 2.3.2), which show that there is need for review of budgetary assumption on the part of the programme management.

Out of total savings of ₹ 1085.74 crore under 12 grants/appropriation, saving of ₹ 836.72 crore (77 percent of total savings) were not surrendered. Whereas savings of ₹ 197.51 crore were surrendered on the last working day of March 2010 indicating inadequate financial control besides the fact that these funds could not be utilized for other development purposes.

A provision of ₹ 13.08 crore was made under sub-head Centrally Sponsored Schemes (CSS) and Schedule Caste Sub-Plan (SCSP) but entire provision of ₹13.08 crore remained unutilized due to non-implementation of the schemes.

In gross violation of Rule 56(3) of GFR, expenditure ranging between 56 per cent and 100 per cent under 13 sub-heads were incurred during the month of March 2010. There were 8846 outstanding AC bills for the amount of ₹ 382.39 crore, out of this an amount of ₹ 82.67 crore was pending adjustment for more than four years. *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

State Government's compliance with various rules, procedures and directives was unsatisfactory as is evident from delays in furnishing utilization certificates (UCs) against the loans and grants from various grantee institutions. Out of a total of 4162 UCs amounting to ₹ 11682.16 crore awaited from various departments at the end of March 2010, 1867 UCs amounting to ₹ 2994.70 crore were pending even after a lapse of ten years. Delays also figured in submission of annual accounts by some autonomous bodies and departmental undertakings. The annual accounts of Delhi Jal Board are pending for over five years. Thirty four cases of theft, misappropriation/loss of material amounting to ₹ 33.92 lakh were noticed. *Internal controls in all the organisations should be strengthened to prevent such cases in future.*