

Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted its Fiscal Responsibilities and Budget Management (FRBM) Act, entitled the Gujarat Fiscal Responsibility Act, 2005 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 major 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 outcome budgets. These outcome indicators tend to serve the limited purpose of measuring the department-wise performances against the targets. They do not, however, give the big picture of the status of financial management including debt position, off-budget liabilities, cash management etc. for the benefit of the State Legislature and other stakeholders.

The Report

Based on the audited accounts of the Government of Gujarat 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 the Government's fiscal position as at 31 March 2010. It provides an insight into trends of 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 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 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's early gains in achieving revenue surplus and fiscal deficit targets, suffered a setback in 2008-09 due to the slump in the economy, impacting its revenue receipts and resulting in revenue deficit. The revenue deficit increased substantially during the current year, mainly due to the high increase in Social Service expenditure.

Need to compress Non-Plan expenditure: The revenue expenditure was 85.16 *per cent* of the total expenditure, of which 70.54 *per cent* was under Non-Plan. Non-Plan expenditure increased by 24.06 *per cent*. Moreover, salary expenditure, pension liabilities, interest payments and subsidies constituted 65.63 *per cent* of Non-Plan revenue expenditure during 2009-10.

Review of Government investments:

The average return on the Government's investments in statutory corporations, rural banks, joint stock companies and co-operatives was 0.22 *per cent* in the last three years while the Government paid an average 7.85 *per cent* as interest on its borrowings during 2007-08 to 2009-10. 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 the project planning and implementation mechanism so as to overcoming inadequacies and avoid further time and cost overruns.

Financial management and budgetary control: During 2009-10, there were overall savings of ₹2,221.58 crore, which were a result of the total savings of ₹3,232.44 crore being offset by the excess of ₹1,010.86 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 ₹ 185.18 crore, the amount surrendered was ₹ 438.38 crore, resulting in excess surrender of ₹253.20 crore. There were 17 grants/appropriations in which savings of ₹7.26 crore occurred but the amounts had not been surrendered by the concerned departments. Similarly, out of the total savings of ₹801.87 crore under 11 other grants/appropriations, ₹102.21 crore was not surrendered. Under 19 grants out of the total provision of ₹2,796.68 crore, ₹2,494.88 crore (89.21 *per cent*) were surrendered in respect of 19 sub-heads. 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 22 out of 25 autonomous bodies. There were delays in placement of Separate Audit Reports in the Legislature in respect of seven autonomous bodies which were required to do so. In respect of one autonomous body, there was a delay of over four years. The Government reported 177 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹8.61 crore up to March 2010, 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 departments should be strengthened to prevent such cases in future.