Executive Summary

The Report

Based on the audited accounts of the Government of Punjab for the year ended 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 Punjab Government's fiscal position as on 31 March 2010. It provides an insight into the trends in receipts and expenditure, committed expenditure, borrowing pattern, fiscal imbalances etc., besides a brief account of central funds transferred directly to the State implementing agencies through off-budget route.

Chapter 2 is based on the audit of Appropriation Accounts and it gives the 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 Punjab Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings.

Audit findings and recommendations

Inadequate mobilization of revenue receipts: Growth of revenue receipts during the year was only seven *per cent* mainly because of low growth in tax revenue and decrease in non-tax revenue. The State's own tax buoyancy with reference to the Gross State Domestic Product (GSDP) decreased from 0.85 in 2008-09 to 0.50 in 2009-10, indicating that the tax revenue had not kept pace with the GSDP. *Concerted efforts to increase the tax revenue could improve the States' finances.*

Funds transferred directly to the State implementing agencies outside the State budget: During 2009-10, the GOI directly transferred ₹ 1,162 crore to the State implementing agencies for implementation of various schemes/ programmes. As these funds were not routed through the State budget, the Annual Finance Accounts had not captured the flow of these funds and to that extent, the receipts and expenditure of the State as well as other fiscal variables/parameters derived from them are underestimated. *Government needs to ensure proper documentation and timely reporting of expenditure by the implementing agencies.*

High share of revenue expenditure in the total expenditure: The revenue expenditure during 2009-10 constituted 93 *per cent* of the total expenditure. The committed expenditure constituted 71 *per cent* of revenue expenditure. Expenditure on salaries and wages was 42.52 *per cent* of the revenue expenditure (net of interest payments and pension) exceeding the norm of 35 *per cent* envisaged by the Twelfth Finance Commission.

The level of subsidies at ₹ 2,919 crore in 2009-10 was 66 *per cent* higher than that projected in the Fiscal Correction Path. *The State needs to discourage extending of subsidies to improve fiscal position of the State.* Interest payment was 23 *per cent* of the revenue receipts during 2009-10, which was beyond the medium term target of 15 *per cent* to be achieved by 2009-10. *As the committed revenue expenditure is continued to be high leaving little for asset creation, measures should be taken to compress the unproductive expenditure.*

Low priority to capital expenditure: The Capital expenditure (₹ 2,166 crore) was 1.13 *per cent* of GSDP, against the target of 3 *per cent* to be achieved by 2009-10. *It warrants appropriate action at Government level to improve the capital expenditure.*

Inadequate priority to Development expenditure: In 2009-10, the aggregate expenditure as a proportion of GSDP and development expenditure as a percentage of aggregate expenditure was much lower in Punjab in comparison to the other general category States. *Therefore, Government needs to improve the allocation for Development activities.*

Low return on investment: As of March 2010, the total investment of Government of Punjab in statutory corporations, companies etc. was ₹ 3,832.41 crore. The return on these investments was less than one *per cent*, while the cost of borrowed funds was much higher (7.52 to 8.46 *per cent). It would be advisable for the State Government to ensure better value for the investments, otherwise high cost borrowed funds will continue to be invested in activities with low financial returns.*

High ratio of fiscal liabilities to GSDP: The ratio of fiscal liabilities to GSDP stood at 35.33 *per cent* in 2009-10 against the norm of 28 *per cent* targeted to be achieved by 2009-10 as per the Punjab Fiscal Responsibility and Budget Management (FRBM) Act, 2003. The Thirteenth Finance Commission has further recommended that all States should bring down the fiscal liabilities to 25 *per cent* of GSDP by 2014-15. *Therefore, the State Government should set in place a strategy to limit the quantum of fiscal liabilities in the next five years.*

Increase in outstanding guarantees: The outstanding guarantees given by the Government were 161 *per cent* of the revenue receipts of 2008-09 against the norm of 80 *per cent* prescribed in the FRBM Act, 2003. Though Government has set up a Guarantee Redemption Fund, no amount has been transferred to the Fund. *Government should ensure reduction of the contingent liabilities and transfer of funds to the Guarantee Redemption Fund.*

Debt sustainability: During 2009-10, the interest burden was 23 *per cent* of the revenue receipts. The net funds available from internal debt and GoI loans continued to decrease as the borrowed funds were mostly used for redemption of past debts leaving small funds for other purposes. *Government needs to use the borrowed funds as far as possible only to fund the capital expenditure and revenue expenditure should be met from revenue receipts.*

State Government resorted to borrowing in excess of the approved annual plan and GoI ceiling and did not avail of the alternate economical means of borrowing. There was incorrect computation of cash balances while deciding the borrowings. *A proper monitoring system should be put in place in the Finance Department to ensure correct quantum and need based borrowings.*

Increasing deficits: The revenue deficit at ₹ 5,251 crore during 2009-10, was far from the target of zero revenue deficit by 2009-10. The fiscal deficit (₹ 6,170 crore) constituted 3.21 *per cent* of GSDP, against the relaxed target of 4 *per cent*. The primary surplus of ₹ 3,540 crore in 2006-07 turned into primary deficit of ₹ 1,159 crore in 2009-10. *Government can achieve the targets set out in the FRBM Act, provided efforts are made to improve tax mobilisation, collect arrears of revenue and curtail unproductive expenditure.*

Financial management and budgetary control: There was an overall net saving of ₹ 6,449.79 crore during 2009-10. Savings in excess of ₹ 50 crore and by more than 20 *per cent* of the provision in each case occurred in 17 out of 30 Grants. Large amount of unspent funds were not surrendered by two departments. Excess expenditure of ₹ 5,616.08 crore relating to the period 2004-09 and of ₹ 460.77 crore incurred during 2009-10 over the budget provision require regularisation. In eight grants, expenditure of ₹ 790.93 crore was incurred without provision of funds. During the year, the re-appropriation orders effected by the departments either proved excessive or insufficient and resulted in saving of ₹ 1,575.77 crore in 70 sub-heads and excess of ₹ 497.53 crore in 17 sub-heads.

Budget estimates should be prepared with due care and on realistic basis so that there are no huge surrenders or excess over the estimates. Anticipated savings should be surrendered as and when these are expected so that the amount could be got utilized on other schemes.

Financial Reporting: Utilisation certificates (UCs) in respect of large amount of grants given to various institutes were pending for submission to the Accountant General. Two departments submitted incorrect UCs to the Government of India. There were delays in submission of accounts of the Autonomous bodies for audit as well as submission of the Separate Audit Reports to the State Legislature. Punjab Roadways did not prepare proforma accounts since 2000-01. There were 100 cases of misappropriations, thefts, losses etc. Three offices withdrew funds form treasuries without immediate requirement and parked in banks, outside the Government Accounts. The Drawing and Disbursing Officers and the Treasury Officers failed to classify large number of Abstract Contingent bills and monitor the submission of Detailed Contingent bills.

Control mechanism in the Government departments needs to be strengthened to ensure timely submission of UCs. Submission of the pending accounts by the Autonomous bodies and the Punjab Roadways needs to be monitored. Departmental enquiries in cases of misappropriations and thefts should be expedited and the control system strengthened to prevent recurrence of such cases. The practice of keeping the Government money outside the Government Accounts should be curbed.