EXECUTIVE SUMMARY

Background

This Report on the Finances of the Government of Uttarakhand is being brought out with a view to assess objectively the financial performance of the State during the year 2009-10. The aim of this Report is to provide the State Government with timely input based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programme of the Government. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in Fiscal Responsibility and Budget Management Act, 2005 as well as in the Budget Estimates of 2009-10. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to Himachal Pradesh, another special category State, comparable in many ways to Uttarakhand and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General of India (C&AG) has been commenting upon the Government's finances for over three years since FRBM legislation and have published three Reports already. Since these comments 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 center-stage once again, a stand-alone report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances." **This Report is the second in this endeavour.**

The Report

Based on the audited accounts of the Government of Uttarakhand 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 I is based on the audit of Finance Accounts and makes an assessment of Uttarakhand 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. Besides, consequent upon the implementation of

State's pay revision, there was substantial increase in revenue expenditure in 2009-10, which had a bearing on the fiscal position of the State.

Chapter II is based on 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 III is an inventory of Uttarakhand Government's compliance with various reporting requirements and financial rules. The chapter also provides details of non- submission of accounts. Besides, the cases of misappropriation/ loss that indicate inadequacy of controls in the Government departments are also detailed in this Chapter. The Report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Fiscal correction Path: Uttarakhand is one of the earliest States to have passed the Fiscal Responsibility and Budget Management Act. The State of Uttarakhand achieved the target of attaining revenue surplus from 2006-07 onwards but could not maintain the trend and turned revenue deficit in 2009-10. Fiscal deficit of the State Government at 4.60 *per cent* in 2008-09 continued to be higher than the target of 4 *per cent* (revised) as envisaged in FRBM, Act and was hovering around 6 *per cent* during the year. Therefore, the Government is unlikely to meet the target of bringing down the Revenue deficit to zero *per cent* by the year 2011-12 as has been recommended by the Thirteenth Finance Commission.

There is reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance and collection of revenue arrears and also to prune unproductive expenditure so that deficits may be reduced. Borrowings should be resorted only to fund creation of assets.

Greater priority to capital expenditure: The capital expenditure of the State decreased by ₹ 369 crore during 2009-10 as compared to the previous year mainly due to decrease of ₹ 172 crore under social sector and ₹ 132 crore in the economic sector. The percentage of social sector capital expenditure was only seven *per cent* of the total capital expenditure. Evidently, less priority was given to social services and may have an adverse impact on the social health of the State, if left unattended. Huge unspent balances remaining unutilized under Capital Head during the year was indicative of the fact that the expenditure could not be incurred as estimated and planned on development of infrastructure by the State Government during the year.

A monitoring organ should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Government money is being utilized so that value for money is channelised in its entirety to the intended beneficiaries. Further, the capacity of the State to utilize funds for developmental and social outcomes should be improved through realistic formulation of schemes and avoiding time and cost overruns during implementation of the schemes/projects.

Review of Government investments: The average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was almost negligible in the past three years while the Government paid an average interest of 7.64 *per cent* on this investment.

A performance based system of accountability should be put in place in Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify, if high cost borrowings are worth being channelised there.

Prudent cash management: The cost of holding surplus cash balances was high. In 2009-10, the interest received on investment of cash balances in RBI Investment in Treasury Bills and Auction Treasury Bills was only 1.21 *per cent* while the Government borrowed at an average rate of 7.64 *per cent*.

Proper debt management through advanced planning could reduce the need for the State government 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.

Debt sustainability: The Government of Uttarakhand should ideally keep the debt-GSDP ratio stable by adhering to the FRBM principle. The debt-GSDP ratio which declined to 40 *per cent* in 2009-10 from 40.52 *per cent* in 2008-09 has shown marginal improvement but the State experienced a negative resource gap in the current year indicating the non-sustainability of debt.

Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Efforts should be made to return to the state of primary surplus and to maintain revenue surplus. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GOI to the State implementing agencies: The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for the implementation of various schemes/programmes in social and economic sectors recognized as critical. However, these funds are not routed through the State budget/State treasury system. During the year 2009-10, a huge amount of ₹ 1098.50 crore was directly transferred to State Implementing Agencies.

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 Accountant General (Accounts and Entitlement) to ensure its effective utilization.

Financial management and budgetary control: The overall saving of ₹ 1,283.60 crore in grants and appropriations was due to saving of ₹ 2,291.09 crore offset by excess of ₹ 1,007.49 crore. Revenue and General Administration, Finance Tax Planning, Medical Health and Family Welfare, Water Supply, Housing &Urban Development, Welfare and Rural Development Sectors posted large savings in the last five years. There were also instances of inadequate provision of funds and unnecessary/ excessive re-appropriations. Rush of expenditure at the end of the year was another chronic feature noticed in the overall financial management. 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 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 for a better financial management.

Advances from Contingency Fund

Expenditure of ₹ 71.42 crore was met from the advances drawn from the Contingency Fund during the year and had not been recouped to the fund at the end of the year. The expenditure pertained to Census of Agriculture, Establishment, Secondary Education, Training, Promotion Publicity, Dairy Development, Crop Husbandry and Horticulture and therefore could not be termed of emergent nature requiring drawals from the contingency fund.

The Government should sanction advances from Contingency Fund only for meeting expenditure of unforeseen and emergent nature and efforts should be made to recoup the funds at the earliest possible during the year itself.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. Delays were also noted in submission of annual accounts by some of the departmental commercial undertakings. There were instances of loss and misappropriation.

Government departments should take urgent action for finalisation of outstanding annual accounts of departmental commercial undertakings. Departmental enquires in 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.