

## 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. Though the fiscal management targets on revenue deficit and fiscal deficit of FRBM legislation have been achieved by 2006-07, in the subsequent years such deficits increased substantially.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the 13<sup>th</sup> Finance Commission (ThFC) has recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. This requires the State to reduce the revenue deficit to zero by 2011-12, the fiscal deficit to not more than three *per cent* of the estimated GSDP for the year beginning 2011-12, to cap the total public debt of the State Government to 27.1 *per cent* of the estimated GSDP by end of 2014-15 and to cap the outstanding guarantees within the limit (₹20,000 crore) prescribed in the Gujarat State Guarantees Act, 1963.

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 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 the other stakeholders. Thus the outcome indicators serve a limited purpose of measuring the department-wise performances against the targets.

### *The Report*

Based on the audited accounts of the Government of Gujarat for the year ending March 2011, 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 Finance Accounts and makes an assessment of the Government's fiscal position as at 31 March 2011. 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 the 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 other sources in support of the findings.

### ***Audit findings and recommendations***

**Fiscal discipline:** The Government's early gains in achieving fiscal targets, suffered a setback in 2008-09, resulting in revenue deficit of ₹66 crore. The revenue deficit, however, increased to ₹6,966 crore in 2009-10 but came down to ₹5,076 crore in 2010-11. The fiscal deficit during 2008-09 was ₹10,438 crore which increased to ₹15,153 crore in 2009-10. It, however, reduced marginally (by ₹79 crore) and came down to ₹15,074 crore in 2010-11.

**Review of Government investments:** The average return on the Government's investments in statutory corporations, rural banks, joint stock companies and co-operatives was 0.25 *per cent* in the last three years while the Government paid an average 7.67 *per cent* as interest on its borrowings during 2008-09 to 2010-11.

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. 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 State's economy.

**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 2010-11, there were overall savings of ₹4,513.50 crore, which were a result of the total savings of ₹4,633.75 crore being offset by the excess of ₹120.25 crore. The excess expenditure requires regularization under Article 205 of the Constitution of India. In 19 cases, as against savings of ₹1,444.05 crore, the amount surrendered was ₹2,045.74 crore, resulting in excess surrender of ₹601.69 crore, indicating inadequate budgetary control. 10 grants/appropriations in which savings of ₹246.24 crore occurred but the amounts had not been surrendered by the concerned departments. Under 23 grants, out of the total provision of ₹1,543.06 crore in respect of 86 sub-heads, ₹1,168.88 crore (75.75 *per cent*) were surrendered. Budgetary controls should be strengthened to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders evidenced in the state and brought out in this report 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 paid to 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 eight autonomous bodies which were required to do so. In respect of two autonomous bodies, the delay was of over four years. The Government reported 175 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹8.54 crore up to March 2011, 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.

