Executive Summary

Background

This Report on the Finances of the Government of Odisha is being brought out with a view to assess objectively the financial performance of the State during 2010-11 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. 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 the Fiscal Responsibilities and Budget Management (FRBM) Act, 2005 and in the Budget Estimates of 2010-11, and norms recommended by the Thirteenth Finance Commission.

The Report

Based on the audited accounts of the State Government for the year ending March 2011, this report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed based on the FRBM Act, budget documents, Thirteenth Finance Commission (13^{th} FC) recommendations and other financial data obtained from various Government departments and organisations. The report is structured in three chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Odisha Government's fiscal position as of 31 March 2011. 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 and resources generated through public private partnership mode.

Chapter 2 is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments. Besides, comments arising out of audit of budgetary process and budget assumptions and outcome of inspection of treasuries have also been made in chapter-2.

Chapter 3 is an inventory of 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.

Appendix 4.1 at the end gives a glossary of selected terms related to State economy, as used in this report.

Audit findings and recommendations

Amendment to the State FRBM Act: The 13th FC recommended amendment to the State FRBM Act incorporating there in the continuation of the already achieved zero revenue deficit, setting a target of three *per cent* of fiscal deficit by 2011-12, a feature of independent review / monitoring system, projection of Revenue Consequences of Capital Expenditure (RCCE) in the Mid Term Fiscal Plan (MTFP), public private partnerships (PPP) and related liabilities and bringing out statements on physical and financial assets and vacant public land and buildings. However, the FRBM Act was yet to be amended (October 2011). Government may initiate steps for amending the Act incorporating there in the issues raised by the 13th FC for a better monitoring of expenditure and enhanced grip over the State finances.

Oversight over funds transferred directly from the GoI to the State implementing agencies: GoI directly transferred substantial amount of grants-in-aid to the State Implementing Agencies for implementation of different schemes. Funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amounts spent in any particular year on major flagship and other important schemes. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. The State Government has to put in place an appropriate mechanism to ensure proper accounting and utilization of the funds directly transferred by GOI to implementing agencies.

***Revenue Receipts*:** The Revenue receipts (₹ 33276 crore) grew by 26 *per cent* in 2010-11 over the previous year compared to 12 *per cent* in 2008-09 and seven *per cent* in 2009-10. The increase was mainly contributed by own tax revenue, State's share of union taxes and duties and grants-in-aid receipts from Government of India (GoI). As a result, the revenue buoyancy ratio relative to GSDP which was at its lowest at 0.314 in 2009-10 increased to 1.104. However, the growth rate of Revenue receipts was lower compared to the growth (28 *per cent*) achieved during 2006-07. Government may mobilize additional tax resources through Tax and Non-Tax Revenue by expanding the tax base, rationalising the user charges, collection of arrears of revenue and cost recovery of maintenance expenditure of irrigation projects as per recommendations of 12th and 13th FCs.

***Revenue Expenditure*:** Revenue Expenditure (RE) which constituted 86 *per cent* of the total expenditure during 2010-11, increased by 16 *per cent* over the previous year. Non-Plan Revenue Expenditure (NPRE) constituted 75 *per cent* of RE. The NPRE (₹ 21975 crore) increased by 12 *per cent* over the previous year and exceeded the 13th FC's normative assessment (₹ 17683 crore) by ₹ 4292 crore. The increase in NPRE was mainly due to increase (14 *per cent*) in committed expenditure (₹ 17351 crore) under salary, pension, interest payments and subsidies during the year. Expenditure on salaries (₹ 8969 crore) and pension (₹ 4011 crore) exceeded the 13th FC's projection (₹ 6514 crore and 2634 crore) by ₹ 2455 crore and ₹ 1377 crore respectively.

Food subsidies at ₹ 932 crore exceeded the normative projection of the 13th FC of ₹ 84 crore largely due to implementation of the rupee two per kilogram of rice scheme introduced during 2008-09 which continued through 2010-11. 13th FC recommended phasing out of subsidies. Government may consider reduction in subsidy payments to Public Sector Undertakings (PSUs) etc. for boosting their operational efficiency and close down non working PSUs. Government may resort to need-based borrowings to reduce interest payments and contain the growth of un-productive non-plan revenue expenditure.

Return to fiscal correction

Fiscal position of the State viewed in terms of trends in deficit/surplus indicators revealed that in 2010-11, while revenue surplus and primary surplus increased, fiscal deficit declined over the previous year pointing towards the continuing effort of the State Government towards a path of fiscal correction and consolidation.

The fiscal deficit decreased from ₹ 2266 crore in 2009-10 to ₹ 658 crore in 2010-11 due to increase in revenue receipts as well lower growth of revenue expenditure. The significant gap between the growth rates of the revenue receipts (*26 per cent*) and revenue expenditure (16 *per cent*) over the previous year resulted in increase of revenue surplus to ₹ 3908 crore during 2010-11 from ₹ 1138 crore in 2009-10. Primary surplus increased from ₹ 778 crore in 2009-10 to ₹ 2403 crore in 2010-11, fiscal deficit also decreased from 1.5 *per cent* of GSDP in 2009-10 to 0.35 *per cent* in 2010-11, which is a welcome development.

Built upon early gains in achieving deficit targets, the Government continued to consolidate the same in the current year (2010-11) despite pressure on the committed expenditure due to implementation of the Sixth Pay Commission award and higher food subsidy costs due to introduction of rupees two a kilogram of rice for the disadvantaged segment of the population. Given the robustness of the economy, the State can still achieve the remaining targets/norms of the 13th FC's recommendations with concerted efforts through better tax compliance, reductions in tax-collection costs, by more effective recovery revenue arrears, by pruning unproductive expenditure and phasing out non-merit implicit and explicit subsidies.

Greater priority to capital expenditure: The Capital Expenditure (CE) increased by 17 *per cent* over the previous year. The CE was 2.30 *per cent* of GSDP as against state government's projection of 2.68 *per cent* for 2010-11 and less than the budget estimates. Government may consider strengthening the physical and operational infrastructure for absorption of higher capital expenditure and re-prioritise its outlays for asset formation and sustainable development of the State in view of lower achievement of target set under MTFP for 2010-11.

Review of Government investments: There was investment of Rs. 2190.37 crore during 2010-11 with a return of Rs. 101.58 crore which was 4.64 per cent of the investment. The return on Government's investment in Statutory Corporations (three), Rural Banks (three), Joint Stock Companies (80) and Co-operatives (30) was 4.64 *per cent* in the current year while Government paid interest at an average rate of 7.39 *per cent* on its borrowings during 2010-11. Out of this, only one Corporation (Odisha Mining Corporation) contributed ₹ 100 crore which constituted 98.44 *per cent* of the total return received. This was due to State Government receiving no return from 108 concerns[1] which account for 94 *per cent* of total equity holding (₹ 2054 crore) of the State Government. Outstanding loans as of March 2011 was ₹ 3414 crore. Difference between interest payment and interest receipts was negative which meant that the State's borrowings were more expensive than the loans advanced by the Government. It would be advisable for the State Government to ensure better value for money in its investments, otherwise high cost borrowed funds invested in projects with low financial return will continue to strain the State economy in the long-run.

It would also be prudent to review the working of state public sector undertakings which are incurring huge losses and work out either a revival strategy (for those which can be made viable) or close them down (if they are not likely to be viable given the current market conditions in that particular sector). The Thirteenth Finance Commission also recommended that the State Government draw up a road map for closure of non working public sector undertakings (PSUs) by March 2011 which is yet to be done.

Prudent cash management: The State had a huge surplus cash balance, but invested the same in Government of India (GoI) Treasury Bills with Reserve Bank of India at low interest rates. One option for prudent cash management would be to maintain optimum cash balances (minimum: ₹ 1.28 crore) with RBI by advance planning and use the surpluses to retire or pre-pay some of the high cost debts. The 13th FC also recommended the Governments to make efforts towards utilizing their cash balances before resorting to fresh borrowings. The State Government should continue to pursue with GoI to allow pre-payment of high cost debt before incurring fresh debt.

Debt sustainability: Currently the State Government is not facing any debt crisis because the fiscal deficit is in a manageable position of 0.35 *per cent* of GSDP, which is well within the projections of 13 FC of three *per cent* (Para 9.75) and most of the indicators of debt sustainability are also positive. The trends in debt sustainability revealed that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure during the period 2008-11, which is a very positive sign.

Public-Private Partnerships: Government has framed public-private-partnership (PPP) policy in 19 sectors of the economy to generate maximum resources for infrastructure build up during 2007-12; however, the resources generated during 2007-11 were negligible as most of these projects did not take off. Only six out of 64 projects had been completed at an estimated

[1] Statutory Corporations: 2, Government companies: 77 and Co-operative Societies: 29)

expenditure of ₹ 36.99 crore. Effective actions have to be taken to gear up the activities of PPP for generation of additional resources for creating public infrastructure, which is so woefully deficient in the State. Also, there is a need to appropriately disclose the quantum of resources planned to be generated through the PPP route in the Budget and the Finance Accounts, which has not been done so far.

Financial Management and Budgetary Control

During 2010-11, there was overall savings of ₹ 6108.47 crore. Gross savings of ₹ 6536.98 crore was offset by excess expenditure of ₹ 428.51 crore in three Grants under Revenue section and one grant under Capital section and one Appropriation. The above excess needs regularization under Article 205 of the Constitution of India. The savings were mainly due to slow programme implementation and largely contributed to surpluses on the revenue account and decline in fiscal deficit.

There were instances of savings exceeding ₹ 10 crore in 31 cases relating to 22 grants. This included huge savings of ₹ 5464.48 crore in 14 cases under 12 grants exceeding ₹ 100 crore in each case. There were persistent savings up to 90 *per cent* in nine grants during 2010-11. There were also instances of excess expenditure and expenditure without provision of funds, unnecessary/excessive supplementary provision, substantial surrenders, non-surrender of anticipated savings during the current year and instances of rush of expenditure during the last month of the financial year. Besides, huge amounts drawn for specific purposes from the Consolidated Fund and transfer credited to 8443-Civil Deposits-800 Other Deposits under Public Account were lying unspent thereby vitiating expenditure figures under the Consolidated Fund. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issue of re-appropriation / surrender statements should be avoided.

Non-recoupment of advances from the Contingency Fund persisted despite the same being pointed out in earlier Audit Reports. The Constitutional provisions should be observed for recoupment of advances from the Contingency Fund.

Payment of grants-in-aid constitutes Revenue Expenditure. During the year grants-in-aid of ₹ 40.84 crore were found debited to Capital heads of accounts leading to overstatement of Capital Expenditure and understatement of Revenue Expenditure. Proper classification of Government transactions need to be adhered to as per rules.

National loan scholarship of ₹ 2.47 crore was outstanding for recovery from students. The loan scholarships should be recovered from the defaulters and the time-barred cheques should be validated and credited to Government account forthwith.

Instances of diversion and utilization of Tribal Area Sub plan funds in development of infrastructure in urban areas were noticed indicating serious breaches in the due diligence procedure supposed to be carried out by Planning and Co-ordination and Finance departments before approving budget proposals of various departments. This requires thorough investigation.

Financial reporting

State Government's compliance with various rules, procedures and directives relating to utilization of funds was unsatisfactory as evident from delays in furnishing utilisation certificates (UCs) against the grants from various grantee institutions and issue of inaccurate UCs. This was mainly due to non adherence to the existing instructions for watching timely receipt of UCs.

Information on financial assistance given to various institutions / authorities by different departments of the State Government have not been furnished to the Accountant General (Civil Audit), Odisha as required under the provisions of Audit and Accounts Regulations 2007 and State Government rules.

Though entrustment of audit of 10 bodies / authorities was made to the Comptroller and Auditor General of India between November 2010 and January 2011, their accounts had not yet been received in the office of the Accountant General (Civil Audit), Odisha.

Delays were also noticed in submission of annual accounts by the commercially managed departmental undertaking.

Cases of misappropriation, losses and defalcations were pending for settlement for long in many of the departments of State Government despite the same being pointed out regularly in earlier Audit Reports. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent occurrence of such cases in future.

The Chief Controlling Officers did not submit the Detailed Contingent Bills against the advances drawn on Abstract Contingent (AC) Bills of ₹ 50.63 crore for up to seven years as of 31 March 2011. A rigorous monitoring mechanism needs to be put in place by the Drawing and Disbursing Officers (DDOs) to adjust AC Bills in time and not to advance further amounts without adjustment of earlier advances.

Non reconciliation of expenditure figures persisted with some of the departments of the Government despite the same being regularly pointed out in the Audit Reports of C&AG.

A large amount of unspent balance (₹ 575.08 crore) was lying in 926 Personal Deposit (PD) Accounts and were not credited back to Government Account. There were 50 PD accounts involving ₹ 3.52 crore lying inoperative as of March 2011. Parking of fund in PD accounts adversely affected the transparency of State accounts as inflated the revenue expenditure and locked up of resources which could have been utilised elsewhere for development. Further, it also greatly erodes budgetary and legislative control over the State's finances. Government may take suitable measures for closure of inoperative of PD accounts and transfer of balance fund to the Consolidated Fund as provided in codal provisions.

MAIN REPORT