

Executive Summary

Background

Based on the audited accounts of the GoR 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, Economic Review 2010-11, Thirteenth Finance Commission (XIII-FC) Report 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 GoR's fiscal position as on 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.

Chapter 2 is based on Appropriation Accounts and gives grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of GoR's compliance with various reporting requirements and financial rules.

The report also has an *Appendix I* 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

The State Government has shown a return to fiscal consolidation by showing a healthy growth in both tax and non-tax revenue. The fiscal deficit was a healthy 1.4 per cent of Gross State Domestic Product (GSDP) as against the target of three per cent as prescribed by revised FRBM Act, 2011.

Budget Estimates: The actual revenue receipts and revenue expenditure increased by eight *per cent* and three *per cent* respectively as compared to the budget estimates for 2010-11. Resultantly, the estimated revenue deficit turned into revenue surplus. The estimated primary deficit also turned into primary surplus. The actual fiscal deficit declined from the budget estimate by ₹ 4,335 crore; deficit was 1.4 *per cent* of GSDP as against 3.5 *per cent* of budget estimates.

Inadequate Priority to Capital expenditure: The capital expenditure marginally increased by 1.5 *per cent* over the previous year and it was 29 *per cent* lower than that projected in Mid Term Fiscal Policy Statement (MTFPS) for 2010-11. The progressive capital expenditure at the end of March 2011 includes ₹ 7,142 crore (11.6 *per cent*) blocked on 152 incomplete projects. Government should give adequate priority to capital expenditure and should formulate guidelines for early completion of incomplete projects to avoid time and cost over runs with a view to take corrective action.

Review of Government investments: The average return on State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.2 to 0.5 *per cent* in the past three years while the Government paid an average interest of 7.7 *per cent* on this investment. It would 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).

Prudent cash management: The State had a huge surplus cash balance of ₹ 6,088 crore. In 2010-11, the interest received on investment of cash balances in Treasury Bills and Auction Treasury Bills was only 5 *per cent* while the Government borrowed on an average at 7.7 *per cent*. Since, maintaining huge idle cash balance is not prudent cash management, appropriate steps should be taken for spending on capital projects for creation of assets.

Oversight of funds transferred directly from the GoI to the State Implementing Agencies: GoI directly transferred substantial amount of funds to the State Implementing Agencies, which is fraught with the risk of their improper utilisation by these agencies. There is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes. 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 Principal Accountant General.

A review of release and utilization of grants recommended by XIII-FC by some department revealed that non-finalisation of action/work plan in Forest, Information Technology and Communication and Law and Legal Affairs Departments led to non-utilisation of grant of ₹ 62.20 crore against sanctioned amount of ₹ 78.23 crore.

Financial Management and Budgetary Control: During 2010-11, there was an overall saving of ₹ 5,399 crore over the total grants and appropriations indicating inaccurate budgeting. There was excess expenditure of ₹ 19.80 crore which requires regularisation under Article 205 of the Constitution of

India. In all 55 Grants/appropriations, 85 *per cent* of total savings was surrendered on the last working day of the financial year leaving no scope for utilising these funds for other development purposes. Rush of expenditure at the end of the year is another chronic feature, which indicates weak budgetary control.

Review of Contingency Fund revealed that ten sanctions for ₹ 191.86 crore were issued during 2010-11 for grant of advance from Contingency Fund of State out of which ₹ 11.14 crore were not for immediate requirement.

Review of some grants revealed that (i) in Public Health and Engineering Department ₹ 202.47 crore was surrendered in 17 schemes, (ii) in Co-operative Department provision of ₹ 30 crore was not made in Budget Estimates for assistance to co-operative institutions for payment of interest, despite announcement made by Chief Minister during Budget Speech, 2010-11, (iii) in Medical and Health Department the Finance Department allotted additional fund of ₹ 75 crore without any demand of the Department, (iv) in Tribal Area Development Department there were persistent savings ranging between ₹ 0.10 crore and ₹ 3.63 crore in five cases, (v) the Tourism Department irregularly credited recoveries of previous years of ₹ 19.08 crore and exhibited in its accounts as reduced expenditure and (vi) in 24 cases an expenditure of ₹ 28.80 crore was incurred on New Services without the approval by the Legislature.

Departments should submit more realistic budget estimates keeping in view the trends in expenditure and actual requirement of funds. Budgetary controls should be strictly observed. Anticipated savings should be surrendered well in time so that the funds are utilised for various development programmes. The Government should sanction advance from Contingency Fund only for expenditure of unforeseen and emergent nature.

Financial Reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilisation certificates against the loans and grants, from various grantee institutions. Annual Accounts in respect of 121 Autonomous Bodies/Authorities for the year 2009-10 have not been received upto 31 March 2011. There were instances of losses and misappropriations of Government money amounting to ₹ 42.25 crore as of 31 March 2011. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent recurrence of such cases in future.

The Controlling Officers did not submit the Detailed Contingent Bills in respect of ₹ 104.55 crore against the advances drawn on 531 Abstract

Contingent Bills upto 31 March 2011. Besides, unspent balances of ₹ 2,083.53 crore was also lying in 1,697 Personal Deposit (PD) Accounts.

A rigorous monitoring mechanism should be put in place by the DDOs to adjust the abstract contingent bills in time and maintain the PD Accounts properly, as required under the extant rules.

Significant amounts of expenditure (₹ 5,762.83 crore) and receipts (₹ 1,829.73 crore) under Central and State schemes, booked under the Minor head 800-Other expenditure/other receipts were not depicted in the appropriate head of account in Finance Accounts of 2010-11, affecting the transparency in financial reporting. Amounts received and expended under various schemes should be depicted distinctly in the State Accounts instead of clubbing those under the Minor head '800'.