

## EXECUTIVE SUMMARY

### Background

This Report on the Finances of the Government of Himachal Pradesh is being brought out to assess objectively the financial performance of the State during the year 2011-12. The aim of this Report, which is based upon the actual data, is to provide the State Government timely input on the performance of the departments on financial management/implementation of schemes/programmes 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 (FRBM) Act, 2005 amended further by Act No. 25 of 2011 as well as in the Budget Estimates of 2011-12.

The Comptroller and Auditor General of India (C&AG) has been commenting upon the Government's finances for over six years since FRBM legislation and has already published six Reports. 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, Comptroller and Auditor General has decided to bring out a separate volume titled “**Report on State Finances**”. This is the fourth edition of this endeavour.

### The Report

Based on the audited accounts of the Government of Himachal Pradesh for the year ending March 2012, 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 Himachal Pradesh Government's fiscal position as on 31 March 2012. 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 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.

**Chapter 3** is an inventory of Himachal Pradesh Government's compliance with various reporting requirements and financial rules. The cases of misappropriation/loss that indicate inadequacy of controls in the Government departments are also detailed in this Chapter.

### Audit findings and recommendations

**Fiscal correction path:** Himachal Pradesh is one of the earliest States to have passed the FRBM Act in the year 2005 and further to amend it in 2011. The State of Himachal Pradesh had revenue surplus in 2007-08 but could not maintain the trend and turned into revenue deficit in 2008-09 which rose further upto 2010-11. The revenue deficit of ₹1235 crore in 2010-11 ultimately turned into revenue surplus of ₹645 crore during the current year 2011-12. The fiscal deficit at ₹1633 crore is 2.59 *per cent* of GSDP, is below the normative assessment made by Thirteenth Finance Commission (Th FC) for the current year 2011-12.

The State had achieved five and six out of seven targets as set out in MTFPS and FRBM Act/Th FC during 2011-12. Efforts should also be made to improve collection of non tax revenue so that recourse to borrowed funds from GoI can be reduced.

**Funds directly transferred from GoI to the State Implementing Agencies:** There is no single agency to monitor the receipt/transfer of funds directly from GoI and therefore, utilisation of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

**System to ensure proper accounting of funds:** A system has to be put in place to ensure proper accounting of funds transferred directly by the GoI and the updated information should be validated by the State Government as well as Accountant General (A&E).

**Review of Government investments:** The average return on Himachal Pradesh Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was 2.46 *per cent* (**Para 1.7.2**) while the Government paid an average interest of 8.49 *per cent* on its borrowings from Central Government/Financial institutions. The government may 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. *The Government may consider taking appropriate measure to ensure better value for money in investments.*

**Action Plan for incomplete projects:** The Government may prepare an effective action plan to complete all projects promptly so that people derive envisaged benefits in time.

**Financial management and budgetary control:** The State Government's budgetary processes have not been sound during the year 2011-12 due to excess expenditure and expenditure without provision, drawal of funds to avoid lapse of budget grant and unnecessary withdrawal of funds. In many cases, anticipated savings (shortfall in the utilisation of budgets) were either not surrendered or surrendered at the end of the year leaving no scope for utilising these funds for other development purposes. Financial rules were flouted by several departments by drawing funds in excess of requirement, resorting to re-appropriation without proper explanation and expending without provision of funds. Release of funds and surrender of substantial funds at the end of the year is a matter of concern, since funds could not be utilised fruitfully. The Abstract Contingent (AC) bills had not been adjusted for long periods of time which is fraught with the risk of misappropriation.

The Government may ensure that:

- all the departments should submit realistic budget estimates, keeping in view the trends of expenditure and the actual requirement of funds in order to avoid large savings/excesses.
- all the departments should closely monitor the expenditure against the allocations and incurring of excess expenditure over the grants should be strictly avoided.
- the Finance Department should, therefore, issue specific instructions to all the departments to work out savings before hand and ensure their surrender by stipulated date for their effective utilisation by other departments requiring funds.
- there is a rigorous monitoring mechanism in place in the departments to adjust the advances drawn on Abstract Contingent bills within the stipulated period, as required under the extant rules.

**Financial reporting:** Compliance with various rules, procedures and directives by the Departments is not adequate as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. There were instances of theft, loss and misappropriation.

The Government may consider to ensure:

- timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions.
- expediting departmental enquiries in respect of all loss and misappropriation cases strengthening internal controls in all the organisations to prevent such cases.
- depicting expenditure and other receipts in the accounts distinctly, instead of clubbing the same under the Minor head '800-Other Expenditure' and '800-Other Receipts' to ensure correctness in financial reporting.