

Executive Summary

Background

This report on the Finance of the Government of Punjab is being brought out to assess the financial performance of the State during the year 2011-12. 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 Responsibility and Budget Management Act, 2003 as amended further by Fiscal Responsibility and Budget Management (Amendment) Act, 2011 as well as in the Budget estimates of 2011-12.

Earlier (i.e. upto report year 2008), comments of the Comptroller and Auditor General of India on the Government's finances formed part of the Audit Report (Civil). 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 inevitable fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. A stand-alone report on the State Government finances was considered an appropriate audit response to bring State finances to center-stage. Accordingly, from the report year 2009 onwards, Comptroller and Auditor General of India has decided to bring out a separate volume titled "Report on State Finances". This is the fourth edition of this endeavor.

The Report

Based on the audited accounts of the Government of Punjab for the year ended 31 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 the Punjab Government's fiscal position as on 31 March 2012. It provides an insight into the trends in receipts and expenditure, committed expenditure, borrowing pattern, fiscal imbalances etc., besides a brief account of central funds released directly to the State implementing agencies through off-budget route.

Chapter 2 is based on the 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 3 is report on the Punjab 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.

Audit findings and recommendations

Fiscal Correction Path: Punjab is the earliest State to have passed the Fiscal Responsibility and Budget Management Act in 2003. But the State could not contain its revenue deficit as per targets fixed by the Fiscal Responsibility and Budget Management Act. It has been going up each

passing year. During the current year it was 2.74 *per cent* as against the target of 1.80 *per cent* of GSDP in Fiscal Responsibility and Budget Management Act. However, the fiscal deficit at 3.42 *per cent* of Gross State Domestic Product in the current year was within the target of 3.50 *per cent* fixed under the Fiscal Responsibility and Budget Management (Amendment) Act, 2011.

Low priority to capital expenditure: No specific norms regarding prioritization of capital expenditure have been laid in Fiscal Responsibility and Budget Management Act. However, the State Government in its Mid Term Fiscal Policy Statement presented to State Legislature along with the Budget 2011-12 has committed to increase the capital expenditure every year over the previous year during the period 2010-11 to 2014-15. However, during the current year the capital expenditure decreased by 33 *per cent*. The net capital expenditure as *per cent* of Gross State Domestic Product declined from 1.44 *per cent* in 2007-08 to 0.64 *per cent* in the current year which indicates that instead of using borrowed funds for creation of assets it was used to meet the revenue expenditure.

Efforts should be made to check the tendency of meeting revenue expenditure out of borrowed funds.

Review of Government investments: The average return on Punjab Government's investments in Statutory Corporations, Joint Stock Companies, Cooperative Societies etc., was almost negligible (0.01 to 0.05 *per cent*) during the period 2007-12, while the average rate of interest paid by the Government of Punjab on its borrowings was between 7.72 and 8.46 *per cent* during the same period.

Debt sustainability: Though the debt-GSDP ratio at 33.47 *per cent* was within the target fixed (41.80 *per cent*) under Fiscal Responsibility and Budget Management Act, yet the borrowed funds were mostly used for redemption of past debts leaving relatively a smaller portion for other purposes. As much as 24 *per cent* of the revenue receipts were used to meet the burden of interest payments.

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.

Non-deposit of revenue receipts into the consolidated fund of the State: The Government of Punjab established various funds as mentioned through enactment of Acts/issuance of notifications. The revenue receipts collected under these Acts by various bodies were credited to these Funds. Neither the collections credited to these funds nor the expenditure met from these funds form part of either the annual budget of the State Government or the consolidated fund of the State. They remained outside the scrutiny of State Legislature.

Oversight of funds transferred directly from the Government of India to the State implementing agencies outside the State budget: There is no single agency monitoring the funds directly transferred by the Government of India to the State Implementing Agencies in the State for various schemes/programmes in social and economic sectors instead of routing through State budget. Besides, there is no readily available data to ascertain how much is actually spent in any particular year on these schemes/programmes.

The funds released by Government of India directly to the State implementing agencies need to be monitored by appointing a nodal agency.

Financial Management and Budgetary Control

The State Government's budgetary processes have not been sound during the year, with errors in budgeting, persistent savings¹, excess expenditure and expenditure without provision. In many cases, anticipated savings were either not surrendered or surrendered at the end of the year in the month of March leaving no scope for utilizing 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 provisions of funds. Surrender of substantial funds at the end of the year is a matter of concern, since funds could not be utilized fruitfully.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Issuance of re-appropriation/surrender orders at the end of the financial year should be avoided. A close and rigorous monitoring mechanism should be put in place by the Drawing and Disbursing Officers to ensure adjustment of Abstract Contingent bills during the stipulated time frame.

Financial reporting

Departmental officers' compliance with various rules, procedures and directives was unsatisfactory as evident from the extent of inordinate delays in furnishing utilization certificates against the grants released by Punjab Government. Delays were also noted in submission of annual accounts by some of the autonomous bodies set up by the State Government in the field of legal services, science, human rights, labour welfare and industries. There were instances of theft, loss and misappropriation.

Government departments may take urgent action for finalization of outstanding annual accounts of autonomous bodies. Departmental enquiries in misappropriation cases may be expedited to bring the defaulters to book.

¹ Savings means shortage in utilization of funds.