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 2012-13 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) Amendment Act 2011 under Mid Term Fiscal Plan (MTFP), in the Budget Estimates of 2012-13, and norms recommended by the Thirteenth Finance Commission (ThFC).

The Report

Based on the audited accounts of the State Government for the year ending March 2013, 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, ThFC recommendations and other financial data obtained from various Government departments and organisations. The Report is structured in three chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of Odisha Government's fiscal position as of 31 March 2013. 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 II 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-II.

Chapter III 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: In accordance with the ThFC recommendations the State Government amended (February 2012) the FRBM Act incorporating therein the continuation of the already achieved zero revenue deficit, setting a target of three *per cent* of fiscal deficit and review of compliance to provisions of FRBM Act through an independent agency as required by the ThFC.

However, disclosures like projection of Revenue consequences of Capital Expenditure (RCCE) in the MTFP, Public Private Partnerships (PPPs) and related liabilities and bringing out statements on physical and financial assets and vacant public land and building were not included as recommended by ThFC to be featured under MTFP.

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 in the State. 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 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 of these funds.

Revenue Receipts**:** Though Revenue Receipts showed progressive increase from ₹ 24610 crore in 2008-09 to ₹ 43937 crore in 2012-13 registering a growth of 79 *per cent*, yet the annual growth rate has come down sharply to 9.11 *per cent* during 2012-13 from 21 *per cent* in 2011-12. Government may mobilise additional resources through Tax and Non-Tax Revenue by expanding the tax base.

Revenue Expenditure**:** Revenue Expenditure had a predominant share of 84 *per cent* of total expenditure in 2008-09 which increased to 87 *per cent* in 2012-13. However, it increased by 10 *per cent* from ₹ 34660 crore in 2011-12 to ₹ 38238 crore in 2012-13 in absolute terms. Non-Plan Revenue Expenditure (NPRE) as a proportion of Revenue Expenditure, increased from ₹ 15882 crore in 2008-09 to ₹ 26645 crore (70 *per cent*) in 2012-13 and exceeded the ThFC's normative assessment (₹ 22752 crore) by ₹ 3893 crore. The increase in NPRE during the current year was mainly on Education, Sports, Art and Culture (₹ 313 crore), Agriculture and Allied Services (₹ 298 crore), Transport (₹ 256 crore) and Welfare of SC, ST and OBC (₹ 167 crore). The expenditure on subsidies increased from ₹ 743 crore in 2008-09 to ₹ 1951 crore (over 163 *per cent*) in 2012-13 which included food subsidy of ₹ 1190 crore.

Return to fiscal correction

Fiscal position of the State viewed in terms of trends in deficit/surplus indicators revealed that in 2012-13, while revenue surplus and primary surplus increased, fiscal deficit of previous year turned into fiscal surplus pointing towards the continuing effort of the State Government towards a path of fiscal correction and consolidation. Revenue surplus increased to ₹ 5699 crore during 2012-13 from ₹ 5607 crore in 2011-12. Primary surplus decreased from ₹ 3198 crore in 2011-12 to ₹ 2810 crore in 2012-13.

Greater priority to capital expenditure: The Capital Expenditure (CE) increased by 25 *per cent* over the previous year. The CE was 2.17 *per cent* of GSDP as against State Government's projection of 2.72 *per cent* for 2012-13 and less than the budget estimates. Government may consider strengthening State's infrastructure for absorbing higher level of Capital Expenditure for asset formation and sustainable development of the State.

Review of Government investments: As of 31 March 2013, Government had invested ₹ 2964.28 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives. Average return on this investment was 11.94 *per cent* in the last five years (19.04 *per cent* during 2012-13) while Government paid an average interest rate of 6.54 *per cent* to 7.63 *per cent* on its borrowings during 2008-09 to 2012-2013.

Debt sustainability: Currently the State Government is not facing any debt crisis because there was fiscal surplus of 0.01 *per cent* of GSDP, which is well within the ThFC projections of fiscal deficit of three *per cent* 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 2009-12. However, it turned into negative of ₹ 619 crore during 2012-13 indicating non-sustainability of debt which needs to be addressed.

Financial Management and Budgetary Control

During 2012-13, there was overall saving of ₹ 9335.72 crore. The savings were mainly due to non implementation of schemes, less requirement of funds etc. This included huge savings of ₹ 5358.49 crore in six cases under five grants and one appropriation exceeding ₹ 100 crore in each case.

There were instances of savings exceeding ₹ 10 crore in 19 cases relating to 16 grants and one appropriation during 2008-13. There were instances of persistent savings, 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. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issue of re-appropriation should be avoided.

Financial reporting

State Government's compliance with various rules, procedures and directives relating to utilisation 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 Audit as required under the provisions of Audit and Accounts Regulations 2007 and State Government rules.

As of August 2013, accounts of 19 bodies/authorities were not received in the office of the Accountant General (G&SSA), Odisha, though entrustment of Audit of those bodies / authorities was made to the Comptroller and Auditor General of India.

Delays were also noticed in submission of annual accounts by the departmentally managed commercial undertakings.

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. Internal controls in all the organisations should be strengthened to prevent occurrence of such cases in future.

The Chief Controlling Officers did not submit Detailed Contingent Bills against the advances drawn on Abstract Contingent (AC) Bills of ₹ 52.96 crore for up to nine years as of 31 March 2013. 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.

A large amount of unspent balance (₹ 795 crore) was lying in 889 Personal Deposit (PD) Accounts and were not credited back to Government Account. An Amount of ₹ 2.53 crore remained unspent for last three years ending March 2012 in respect of 142 schemes and 82 miscellaneous activities operated by 21 Personal Ledger Account Administrators coming under the jurisdiction of eight District Treasuries/Sub-treasuries.