Executive Summary

1 Background

The Andhra Pradesh State Reorganisation Act, 2014 was enacted in March 2014, bifurcating the composite State of Andhra Pradesh into two states - Telangana and residuary Andhra Pradesh. The appointed day for the bifurcation was the 2nd of June, 2014.

2 The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ended March 2014, this report provides an analytical review of the finances of the State Government. The report is structured in three Chapters.

Chapter 1 *is based on audit of Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2014. It provides an insight into trends, among others, in State Government's resources and their application, developmental expenditure, borrowing pattern, sustainability of debt etc., besides a brief account of central transfers to the State Government as well as the implementing agencies through the off-budget route. It also assesses the adequacy of the State's fiscal priorities*.

Chapter 2 *is based on audit of Appropriation Accounts and reviews the allocative priorities of the State Government and the manner in which the allocated resources were managed by the service delivery departments.*

Chapter 3 *gives an overview of the State Government's compliance with various reporting requirements and financial rules.*

The report also has an appendage of additional data collated from several sources in support of the findings.

3 Audit findings

3.1 Fiscal consolidation

Government of Andhra Pradesh enacted the "Fiscal Responsibility and Budget Management (FRBM) Act" in October 2005, setting out a reform agenda through a fiscal correction path in the medium term with the long-term goal of securing economic growth and stability.

State Government has been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the eighth consecutive year during 2013-14 and the fiscal deficit was within the ceiling prescribed by the FRBM Act. Total liabilities were brought down to 26.67 per cent of GSDP against a ceiling of 28.20 per cent prescribed in FRBM Act for the year 2013-14.

However, revenue surplus has to be viewed in the light of the fact that the Government is yet to work out its liability on account of its contribution (as also that of the employees) to the Contributory Pension Fund scheme from the inception of the scheme in September 2004. The interest payable on the amounts that have been lying in the Fund without transfer to NSDL/Trustee Bank has also not been estimated and accounted for.

Revenue receipts registered a growth of over 6.63 per cent (₹ 6,889 crore) during the current year over the previous year due to growth in own tax and non-tax revenue, the rate of growth being significantly lower when compared to previous three years. Revenue expenditure increased by 7.47 per cent (₹ 7,663 crore) over the previous year due to increase in non-plan expenditure.

While capital expenditure (₹ 15,280 crore) increased by only 0.86 per cent, its ratio to total expenditure stood at 11.81 per cent and it was also not up to the level envisaged in the Macro Economic Framework Statement (₹ 25,973 crore) for the year. Capital works/ projects in irrigation and road sectors continued to languish and delays in their completion led to cost escalation on these projects without achieving the desired benefits. The investment blocked in such incomplete works/projects as of March 2014 was ₹ 82,665 crore (previous year: ₹ 71,595 crore).

Grants-in-aid from GoI increased by ₹ 1,306 crore over the previous year, mainly under non plan grants (₹ 2,649 crore) offset by decreases under grants for State Plan Schemes (₹ 465 crore) and Centrally Sponsored Schemes (₹ 919 crore).

Although the State Government accorded adequate fiscal priority to development expenditure during 2013-14, it did not ensure that the allocated funds were released fully for the intended purpose. State outlay on education (14.47 per cent) in particular, was behind that of the General Category States (17.20 per cent). Further, the share of capital expenditure to aggregate expenditure (11.81 per cent) was also lower in the State, compared to the other General Category States (13.62 per cent).

The current level of recovery of loan is low, with the gap between disbursement (₹ 3,689 crore) and recovery (₹ 575 crore) showing only a slight improvement over the previous year. Finance Department did not maintain any centralized database of loans with entity wise information viz., loan ledgers, repayment schedules, classification of NPAs etc. Government did not also obtain confirmation or acceptance of balances from statutory corporations, Government companies and other institutions to whom loans have been advanced. In fact, confirmation of balances on loan amount of ₹ 23,211 crore was yet to be received from the entities, which were the recipients of these loans.

(Chapter 1)

3.2 Financial Management and Budgetary Control

Budgetary assumptions were unrealistic and expenditure monitoring and control mechanism was weak during the year. The entire Supplementary provision (₹ 11,436 crore) proved unnecessary as the actual expenditure (₹ 1,38,612 crore) incurred was less than the original budget provision (₹ 1,62,148 crore) and the overall saving (₹ 34,973 crore) stood at 20 per cent of the budget for the fourth consecutive year.

Several policy initiatives taken up by Government were either unfulfilled or were partially executed primarily due to non-approval of scheme guidelines/modalities, non-commencement of works for want of administrative sanction, poor project implementation capacities apart from non-release of budget. Therefore, savings occurred due to its inability to take timely action to clear the bottlenecks affecting implementation of its policy decisions at the field level.

Despite flagging the issue repeatedly, excess expenditure of ₹ 530 crore was incurred during 2013-14 without Legislative authorization. Regularisation of such expenditure since 2004-05 amounting to ₹ 3,151 crore was yet to be carried out by Government by taking Legislative approval. Lumpsum provision (₹ 1,703 crore) without specific details of expenditure continued to be accommodated in the budget for 2013-14 and the entire provision was surrendered at the end of the year.

There were several misclassifications in budget. Considering that most of these have been flagged in earlier Audit Reports, non-initiation of corrective action in this regard, especially classification of subsidies in other heads, when there is a specific head to account for these items, operation of omnibus Minor Head 800 etc. imply that Government should be more proactive in bringing about the necessary controls in budget formulation.

Unrealistic budgetary allocations resulting in substantial savings, unnecessary Supplementary grants, expenditure incurred without provision, excess re-appropriations resulting in excess over provision, point to poor budget management. Drawal of funds in excess of requirement and transfer to PD Accounts indicate poor internal controls in the Departments administering Municipal Administration and Urban Development, Panchayat Raj and Medical & Health Grants. Surrender of Scheme funds are also indicative of poor programme implementation and weak expenditure monitoring systems.

(Chapter 2)

3.3 Financial reporting

There were delays in submission of annual accounts by several autonomous bodies/ authorities which dilutes accountability and defeats the purpose of preparation of accounts.

UCs were not furnished on time or not furnished at all for large amounts both by the State and the implementing agencies for the funds drawn for execution of schemes. DC bills were not submitted (₹1,147 crore)for periods ranging upto a decade (₹222 crore drawn up to 2002-03) in violation of prescribed rules and regulations which are indicative of lack of internal controls and raise apprehensions regarding the end use of funds.

Though the Government, at the instance of Audit, has reduced the number of PD accounts operated, an unspent balance of ₹ 13,951 crore still exists under 72,652 PD accounts. Further, the discrepancies between previous year's closing balance and current year's opening balance (₹ 1,855.86 crore) have not been reconciled and rectified. There were huge variations in PD account balances as per Treasury Pass Book, Administrator's Cash Book and Bank Statements at the end of the year. There were also variations between ledger and system with regard to PD accounts within Treasuries itself (₹ 102.04 crore), adverse balances in PD accounts (₹ 147 crore), Self cheques were issued (₹ 1,276.53 crore) in violation of Government orders by several PD account Administrators. These point to need for improvement in monitoring and control over PD accounts.

Omnibus Minor Head 800 continued to be operated during the year for recording expenditure and receipts relating to several items even where there were earmarked heads of accounts, with the expenditure in this head having increased by 4 per cent over the past four years. This affects transparency in financial reporting and distorts meaningful analysis of allocative priorities and quality of expenditure.

Adverse balances under Debt, Deposit heads and outstanding balances under suspense heads affect the quality of financial reporting. Non-lapsing of deposits and advances lying in inoperative heads of account, excess payment of pension/family pension indicate ineffective internal controls.

Non-reconciliation of 36.76 per cent of total expenditure (₹ 47,548 crore) and 52.29 per cent of total receipts (₹ 58,205 crore) during the year despite being highlighted every year in the Audit Report indicates disregard for codal provisions and financial rules by the controlling officers and facilitates non-detection of leakages in revenue and irregularities, if any, in expenditure. Similarly, non-receipt of 29,689 vouchers in support of payments made for an amount of ₹ 3,392.33 crore and 6,184 cheques for an amount of ₹ 2,214 crore from the PAO/Treasuries exposes the system to the risk of non-detection of cases of misappropriation and fraud.

(Chapter 3)