Executive Summary

Background

In May 2005, Rajasthan Government responded to the Twelfth Finance Commission recommendations by legislating "The Rajasthan Fiscal Responsibility and Budget Management Act". As per the recommendations of Thirteenth Finance Commission, the State Government amended the Act in March and September 2011. The Government laid the Medium Term Fiscal Policy Statement for 2013-14 in the legislature (March 2013). The Act envisaged progressive elimination of Revenue deficit to zero by 2011-12, reduction in fiscal deficit to not more than the 3 *per cent* of Gross State Domestic Product and prudent debt management consistent with fiscal sustainability by way of capping total outstanding debt to GSDP to 36.5 *per cent* by the end of 2014-15.

The Report

Based on the audited accounts of the Government of Rajasthan for the year ended March 2014, this report provides an analytical review of the finances of the State Government. The financial performance of the State has been assessed based on the Fiscal Responsibility and Budget Management Act, Budget Documents, Economic Review 2013-14, Thirteenth Finance Commission Report 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 Government of Rajasthan's fiscal position as on 31 March 2014. It provides an insight into trends in committed expenditure, borrowing pattern, besides giving a brief account of Central funds transferred directly to the State Implementing Agencies through off budget route.

Chapter II 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 III is an inventory of Government of Rajasthan's compliance with various reporting requirements and financial rules.

The report also has an ***Appendix 1.1*** 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 the State economy, as used in this report.

Audit Findings and Recommendations

Finances of the State Government

At the end of 2013-14, the fiscal deficit was 2.96 *per cent* of Gross State Domestic Product (GSDP), which was marginally within the limit of 3 *per cent* prescribed under the Fiscal Responsibility and Budget Management

Act, 2005 (as amended in 2011). The State's total outstanding debt as percentage of GSDP was 25.3 *per cent* in 2013-14 which was also within the target of 37.3 *per cent* fixed by the Thirteenth Finance Commission. Further, the shares of development expenditure and capital expenditure as a percentage of total expenditure increased from 66.4 to 73.4 *per cent* and from 10.4 to 15.2 *per cent* respectively during 2010-14.

Revenue surplus of ₹ 3,451 crore of 2012-13 turned into revenue deficit of ₹ 1,039 crore during 2013-14 and primary deficit also increased steeply by ₹ 5,932 crore over the previous year.

Though, revenue receipts of the State increased steadily from ₹ 35,385 crore in 2009-10 to ₹ 74,471 crore in 2013-14, the share of tax revenue to revenue receipts declined from 46.4 *per cent* in 2009-10 to 44.95 *per cent* in 2013-14. The growth in revenue receipts during the year 2013-14 was only 11.3 *per cent* as compared to 29.8 *per cent*, 24.1 *per cent* and 17.4 *per cent* during 2010-11, 2011-12 and 2012-13 respectively. This was mainly on account of 9.8 *per cent* growth of own tax revenue in 2013-14 as compared to 20.2 *per cent* in previous year. The State's own tax buoyancy in 2013-14 declined sharply to 0.8 from 1.5 during 2012-13.

The State Government may explore mobilising additional resources through tax and non-tax sources by ensuring better tax compliance and rationalising the user charges.

While overall revenue expenditure of the State increased by 88 *per cent* from ₹ 40,132 crore in 2009-10 to ₹ 75,510 crore in 2013-14, its share in total expenditure declined from 87.6 *per cent* to 83.9 *per cent* during the same period indicating improvement in expenditure on capital outlay. It is pertinent to note here that the overall growth of ₹ 12,048 crore (19 *per cent*) in revenue expenditure included increase of ₹ 2,638 crore (222 *per cent*) on Social Security Schemes i.e. Old Age Pension Scheme and *Nawachar* Scheme during 2013-14. However, the Non Plan Revenue Expenditure also increased consistently over the period from ₹ 33,845 crore in 2009-10 to ₹ 58,146 crore in 2013-14 and stood at 77 *per cent* of revenue expenditure. The expenditure on salaries, interest payments, pensions and subsidies increased from ₹ 27,179 crore in 2009-10 to ₹44,408 crore in 2013-14.

Whereas major chunk of the non-plan revenue expenditure is on salaries, pensions and interest payments which is largely uncontrollable, the State Government may explore suitable measures for containing the other components of non-plan revenue expenditure. This coupled with additional resources mobilisation would help in containing the revenue deficit as per target prescribed under State FRBM Act.

During 2013-14, Government invested ₹ 4,764.67 crore in Government Companies, Statutory Corporations and Cooperative Institutions etc. Out of this, a sum of ₹ 4,103 crore was invested in seven loss making Statutory Corporations/Government Companies, including all five Power Companies and Rajasthan State Road Transport Corporation. Though during the last five years, the State Government invested ₹ 15,588.37 crore, the average return by way of dividend on the investment in Government Companies and Statutory Corporations ranged from 0.1 to 0.4 *per cent*. On the other hand, the Government paid 7.3 to 7.7 *per cent* interest on an average on its borrowings during 2009-10 to 2013-14.

It would be advisable for the State Government to ensure better value for money in investment, otherwise high cost borrowed funds will continue to be invested in projects with low financial returns.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 12,128 crore and ₹ 8,998 crore at the end of 2012-13 and 2013-14 respectively. Keeping the huge amount in the Cash Balance Investment Account at lower rate of interest while borrowing at higher rate has financial implications. The high level of investment held in 'Cash Balance Investment Account' at the end of these financial years over and above one month's average estimated expenditure as recommended by Thirteenth Finance Commission indicates that there is need for better cash management.

The outstanding fiscal liabilities have shown a steady increase over the years, from ₹ 84,023 crore at the end of 2008-09 to ₹ 1,29,910 crore at the end of 2013-14, though it remained within the target of 37.3 *per cent* fixed by the Thirteenth Finance Commission. The growing volume of debt has resulted in increasing liability for servicing the debt.

The State Government may explore the measures for containing the borrowings and consider utilising the existing cash balances to the extent feasible, before resorting to fresh borrowings.

Financial Management and Budgetary Control

During 2013-14, a sum of ₹ 96,718.25 crore was incurred against total grants and appropriations of ₹ 1,06,452.16 crore leaving savings of ₹ 9,733.91 crore. Review on persistent savings in six grants revealed that savings of ₹ 1,957.25 crore occurred mainly due to posts remaining vacant, reduction in plan outlay of the schemes, less/non-receipt of funds from GoI, less execution of works etc. Supplementary provision of ₹ 1,435.14 crore obtained in 15 cases proved unnecessary and reappropriation of funds in 470 cases was made injudiciously resulting either in savings or excesses over provisions. The departments surrendered ₹ 9,233.15 crore on the last working day of the financial year leaving no scope for utilising these funds for other purposes. In four cases, ₹ 65.31 crore was surrendered in excess of actual savings and in 114 cases, lump sum provision of ₹ 3,859.29 crore was made, out of which ₹ 3,477.58 crore (90.1 *per cent*) remained unutilised.

The Controlling/Disbursing Officers may keep a close and constant watch over the progress of expenditure against the sanctioned allotment in order to avoid savings especially in departments where persistent savings were noticed. They may also specifically strengthen monthly expenditure control and monitoring mechanism.

Detailed Contingent Bills remained outstanding in respect of 1,082 Abstract Contingent Bills amounting to ₹ 323.57 crore, which were outstanding as on 31 July 2014.

A rigorous monitoring mechanism is needed to be put in place to ensure that the advances against drawn Abstract Contingent Bills, are adjusted within the stipulated period.

Out of total expenditure of ₹ 26,081.89 crore, a sum of ₹ 12,769.11 crore (exceeding ₹ 50 crore and more than 30 *per cent* of the total expenditure in each case) was incurred in the last quarter of the financial year. Of this, ₹ 9,027.71 crore was spent in March 2014 alone, which led to rush of expenditure at the end of the year.

The Departments may closely monitor progress of expenditure throughout the year so as to avoid the quality related pitfalls associated with rush of expenditure at the end of the year.

Financial Reporting

Non-submission of utilisation certificates of ₹ 38.93 crore indicated lack of proper monitoring by the Departments in utilisation of grants given for specific purposes. Instances of non-submission of utilisation certificates without actual expenditure were noticed in test check of utilisation certificates in Science and Technology Department and Social Welfare Department.

The sanctioning authority/concerned Departments may evolve a suitable mechanism, preferably through IT platform, to monitor the timely receipt of UCs for verifying their genuineness and look into the delays in submission, with a view to streamlining the system.

There has been non-submission/delay in submission of accounts of autonomous bodies/authorities. In respect of 61 autonomous bodies/authorities auditable under section 14 of Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971 accounts were in arrear for last 10 years.

In order to clear the backlog of arrears in accounts in a time-bound manner, the Controlling Departments may analyse the reasons for delay in finalisation of accounts of autonomous bodies/authorities for suitable remedial measures.