Executive Summary

1 The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ended March 2016, 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 the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2016. It broadly presents and analyses the State Government's resources and their applications.***

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 various Departments.***

Chapter 3 ***gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.***

The Report has appendices containing additional data collated from several sources in support of the findings.

2 Audit Findings

2.1 Fiscal Consolidation

The composite State of Andhra Pradesh had enacted the Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2005 to ensure prudence in fiscal management and fiscal stability by prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework etc. Further, important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commissions' recommendations. However, the new Government of Andhra Pradesh, after reorganization of the State, is yet to amend its Fiscal Responsibility and Budget Management Act in accordance with the 14th Finance Commission's recommendations, especially in respect of fiscal targets viz., revenue deficit, fiscal deficit and total outstanding liabilities to Gross State Domestic Product (GSDP). Government of India was addressed for relaxation of these parameters for which concurrence is awaited. Meanwhile, State Government could not achieve the fiscal reform targets for this year as prescribed by 14th Finance Commission. The fiscal deficit (₹ 22,057 crore) at 3.66 per cent of GSDP was still more than the prescribed limit of 3.25 per cent for the year 2015-16. Total liabilities of ₹ 1,88,075 crore stood at 31.17 per cent of GSDP against the target of 24.33 per cent prescribed by 14th Finance Commission for the year 2015-16.

Revenue receipts (₹ 88,648 crore) registered a shortfall of ₹ 1,476 crore (1.64 per cent) during the year over the Budget estimates for 2015-16 (₹ 90,174 crore). Revenue expenditure (₹ 95,950 crore) at 15.90 per cent of Gross State Domestic Product (GSDP)

was less than the Budget estimates (₹ 97,425 crore). During the current year, 92.39 per cent of the revenue expenditure was met from revenue receipts and the balance (₹ 7,302 crore) was financed from borrowed funds.

While capital expenditure (₹ 14,171 crore) was more than the Budget estimates (₹ 9819 crore) by 44.33 per cent, its ratio to total expenditure stood at 12.80 per cent.

Return on investment in Companies/Statutory Corporations continued to be poor. The level of recovery of loans was low.

Out of 29 subjects listed for devolution to strengthen the Panchayat Raj Institutions in Eleventh Schedule of the Constitution, State Government had devolved 10 functions only in 2007-08 and, thereafter, no initiative was taken for devolving the remaining functions.

(Chapter 1)

2.2 Financial Management and Budgetary Control

Sound financial management requires advance planning and accurate estimation of revenues and expenditure. There were instances of incurring excess expenditure or substantial savings with reference to provisions made during the year, exhibiting weakness in expenditure monitoring and control. The overall excess expenditure during the year 2015-16 accounted for ₹ 20,481.10 crore (15.20 per cent of budget provision including Supplementary grants), which was the result of saving of ₹ 16,375.88 crore under some of the Heads of Account, offset by an excess of ₹ 36,856.98 crore in other Heads. Thus, the supplementary provision approved by the Legislature aggregating ₹ 21,143.05 crore proved to be insufficient by ₹ 20,481.10 crore over a total required provision of ₹ 41,624.15 crore.

Excess expenditure over the allocation amounting to ₹16,816.21 crore pertaining to the years from 2004-05 to 2014-15 was yet to be regularized as of November 2016. Explanatory Notes by the concerned Administrative departments/Finance department were yet to be furnished. The excess expenditure incurred during the year 2015-16 was ₹ 36,856.98 crore.

Excessive/unnecessary/inadequate re-appropriation of funds were also observed. Re-appropriations to heads where original provisions were not made, etc. have been noticed which showed lack of coordination between Finance and the line departments. Scrutiny of re-appropriation orders issued by the State Government during the year 2015-16 showed that out of 10,435 items of re-appropriations made, specific reasons were not intimated in respect of 8,897 items (85.26 per cent).

Contrary to norms, lumpsum provisions of ₹ 4,650 crore were made for salaries and the entire amount was re-appropriated resulting in huge savings in most of the Grants.

Detailed scrutiny of selected Grants showed that several schemes could not be implemented due to non-finalisation of action plans, guidelines etc.

Unrealistic budgetary allocations resulting in substantial savings, unnecessary supplementary grants, expenditure incurred without provisions, incorrect re-appropriations pointed to poor budget management.

(Chapter 2)

2.3 Financial Reporting

Various instances of non-observance of financial rules and procedures and absence of proper financial controls were observed in audit.

Cases of Utilisation Certificates being submitted incorrectly without statement of expenditure for large amounts, both by the State Government and implementing agencies, were seen. Detailed Contingent bills were not being submitted in time (delays ranging up to a decade) in violation of prescribed rules, indicating lack of effective controls besides raising apprehensions about proper end use of funds. Some of the autonomous bodies/authorities, which were in receipt of grants/loans from Government, have failed to adhere to timelines in submitting their accounts. There was no machinery existing in Government to furnish information on the quantum of Grants sanctioned to various institutions.

Once the budget has been allocated to some service, amounts can be transferred to a Personal Deposit Account for ensuring its uninterrupted progress. But the idea of allocation of money with a view to transferring the same to a personal deposit account without even conceiving a project does not conform to the intention and spirit of the rules. During the year 2015-16, 14,721 new Personal Deposit Accounts were opened without closing even a single account for which reasons were not forthcoming from the records/information made available to audit. Though payments of ₹ 41,001.13 crore were made from 42,999 Personal Deposit accounts, there was no proper mechanism to watch authenticity of expenditure incurred. There was no separate procedure to watch the amounts kept outside the Public account i.e. funds diverted to other bank accounts except verification during internal audit of District Treasury Officers/Sub Treasury Officers. This indicated lack of exercise of controls and deficiencies in financial monitoring system.

The omnibus Minor Head 800 continued to be operated for recording the expenditure/receipts relating to several items even for earmarked heads of accounts. This affected the transparency in financial reporting and distorted the analysis of allocative priorities and quality of expenditure.

Non-reconciliation of expenditure (28 per cent of total expenditure) and receipts (48 per cent of total receipts) continued to remain an area of concern during the year, despite being highlighted in earlier years' Reports.

(Chapter 3)