

Executive Summary

Background

In response to the Twelfth Finance Commission's recommendations, the Gujarat Government enacted the Gujarat Fiscal Responsibility Act, 2005 which incorporated the objectives of prudence in fiscal management, fiscal stability by progressive elimination of revenue deficit, sustainable debt management and greater transparency in the fiscal operations of the Government.

To maintain a stable and sustainable fiscal environment consistent with equitable growth, the Thirteenth Finance Commission recommended a fiscal consolidation roadmap for the State by amending their Fiscal Responsibility Legislations. The State Legislature in March 2011 amended the Fiscal Responsibility Act in line with the recommendations.

Recognising that the fiscal environment should be conducive to equitable growth, the 14th Finance Commission recommended the State should target improving the quality of fiscal management encompassing receipts and expenditures while adhering to the roadmap outlined by 14th Finance Commission.

The Report

Based on the audited accounts of the Government of Gujarat for the year ending March 2017, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter I is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2017. It provides an insight into trends of different components of the Government's receipts, expenditure and borrowing pattern, besides giving a brief account of fiscal imbalances.

Chapter II is based on the Appropriation Accounts and gives a grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery Departments.

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

The Report also has additional data collated from several other sources in support of the findings.

Audit findings

Fiscal position

The State achieved the target of reduction of revenue deficit to zero in 2011-12 with a revenue surplus of ₹ 3,215 crore. The revenue surplus in 2016-17 stood at ₹ 5,947 crore, which was significantly higher than the projection in Medium Term Fiscal Policy Statement (MTFPS) of ₹ 3,236 crore.

At the end of 2016-17, the fiscal deficit as a percentage of GSDP was 1.46 *per cent*, which was almost half the target of three *per cent* recommended by 14th Finance Commission and also within limit of Government's own projections in MTFPS.

The State Government maintained the percentage of public debt to GSDP at 17.71 during 2016-17 against the target of 18.55 *per cent* set in MTFPS. In the fiscal consolidation roadmap, the 14th Finance Commission had recommended a percentage of outstanding liabilities¹ to GSDP at 25.87 for 2016-17. However, the percentage of outstanding liabilities to GSDP stood at 21.60 during 2016-17.

The fiscal deficit increased from ₹ 16,492 crore in 2012-13 to ₹ 23,015 crore in 2015-16 which declined to ₹ 16,480 crore in 2016-17. The significant decrease in fiscal deficit during current year was mainly on account of substantial growth of revenue surplus of ₹ 5,947 crore and decrease of ₹ 1,814 crore in capital expenditure compared to the previous year.

A decrease of ₹ 6,535 crore in fiscal deficit together with an increase of ₹ 1,497 crore in interest payment in 2016-17 turned the primary deficit of ₹ 6,715 crore in 2015-16 to primary surplus of ₹ 1,317 crore in 2016-17.

Indian Government Accounting Standard (IGAS)-2 regarding Accounting and Classification of grants-in-aid prescribes that expenditure on grants-in-aid and subsidies should be booked under revenue expenditure in accounts. However, during 2016-17, the Government of Gujarat incorrectly budgeted and booked expenditure of ₹ 89.66 crore relating to Grants-in-aid under the capital section instead of revenue section. This has resulted in understatement of revenue expenditure and consequent overstatement of revenue surplus to the extent of ₹ 89.66 crore.

The investment held in 'Cash Balance Investment Account' by the State Government stood at ₹ 8,946 crore and ₹ 12,750 crore at the end of 2015-16 and 2016-17 respectively. High level of investment held in 'Cash Balance Investment Account' at the end of financial year indicated the need for better cash management.

¹ Total outstanding debt includes public debt and public account liabilities. Public debt includes only internal debt and Loans from Government of India. Public account liability includes liabilities under small saving funds, GPF, reserve funds *etc.*

State's own resources

The tax revenue of the State in 2016-17 stood lower by a significant margin of ₹ 34,447 crore than the 14th Finance Commission projections of ₹ 98,890 crore. It also did not achieve the target set by the Budget and MTFPS. However, actual non-tax revenue at ₹ 13,345.66 crore was higher than MTFPS projection, budget estimates as well as 14th Finance Commission projections.

Revenue expenditure

The share of revenue expenditure in total expenditure increased continuously from 75.91 *per cent* in 2012-13 to 81.98 *per cent* in 2016-17. The share of capital expenditure to total expenditure remained almost constant during 2012-13 to 2013-14, but it declined to 17.64 *per cent* in 2016-17.

Revenue expenditure continuously increased from ₹ 69,659 crore in 2012-13 to ₹ 1,03,895 crore in 2016-17. The year on year growth rate of revenue expenditure fluctuated widely from 16.60 *per cent* in 2012-13 to 8.04 *per cent* in 2013-14. In 2016-17, it had increased by 8.47 *per cent* over the previous year. Revenue expenditure as a *per cent* of GSDP decreased to 9.23 in 2016-17 from 9.63 in 2015-16.

Quality of expenditure

Development expenditure of the State comprises revenue and capital expenditure including loans and advances on socio-economic services. The development expenditure increased from ₹ 66,707 crore in 2012-13 to ₹ 89,822 crore in 2016-17. As a percentage of the total expenditure, the development expenditure of the State decreased from 71.56 *per cent* in 2015-16 to 70.88 *per cent* in 2016-17.

Investment and returns

As of 31 March 2017, Government had invested ₹ 77,833.26 crore in Statutory Corporations, Government Companies, Rural Banks, Joint Stock Companies, Co-operative Institutions and Local Bodies. The average return on the investments (₹ 62,744.20 crore) was 0.21 *per cent* in the last five years while the Government paid an average 7.68 *per cent* as interest on its borrowings during the same period.

As per the latest finalised accounts (up to September 2017) of State Public Sector Undertakings (PSUs), of the 77 working PSUs, 54 PSUs earned a profit of ₹ 3,647.96 crore. However, the State Government received only ₹ 110.10 crore as dividend from the profit-making PSUs during 2016-17.

Further analysis of investment and accumulated losses revealed that 11 of 77 working PSUs had registered an erosion in networth which was negative at ₹ 13,277.57 crore at the end of March 2017.

The investment in PSUs increased from ₹ 1,02,689.21 crore in 2012-13 to ₹ 1,49,499.29 crore in 2016-17. The return on investment ranged between 4.95 *per cent* and 6.82 *per cent* during 2012-13 to 2015-16. The return on equity ranged between 0.27 *per cent* and 4.53 *per cent* during 2012-13 to 2015-16. However, in the year 2016-17, the net loss before interest was ₹ 14,764.43 crore.

Funds and other liabilities

There were 15 reserve funds earmarked for specific purposes of which, seven funds were inoperative. The total accumulated balance as on 31 March 2017 in these funds was ₹ 15,679.53 crore (₹ 15,676.48 crore in operational funds and ₹ 3.05 crore in non-operational funds) of which, only ₹ 10,966.25 crore was invested.

Debt sustainability

Outstanding liabilities increased from ₹ 1,66,667 crore in 2012-13 to ₹ 2,43,146 crore in 2016-17. The outstanding liabilities at the end of year 2016-17 comprised internal debt (₹ 1,92,772 crore), loans and advances from the Central Government (₹ 6,566 crore), small savings and provident fund *etc.* (₹ 43,808 crore). The net funds available from borrowings for current operations after providing for the interest and repayment increased from ₹ 2,477 crore in 2015-16 to ₹ 4,259 crore in 2016-17.

Financial management and budgetary control

Against total provision of ₹ 1,60,351.06 crore during 2016-17, an expenditure of ₹ 1,36,765.39 crore was incurred. This resulted in net savings of ₹ 23,585.67 crore (savings of ₹ 23,863.78 crore offset by excess of ₹ 278.11 crore). Of the excess expenditure of ₹ 278.11 crore during 2016-17, an expenditure of ₹ 275.64 crore was incurred in excess under six voted grants, indicating lack of budgetary control in providing for essential items.

At the close of 2016-17, there were 13 grants/appropriations under which savings exceeded 10 *per cent* of the total provisions but the same had not been surrendered by the concerned Departments. The total amount involved in these cases was ₹ 1,482.18 crore.

Substantial surrenders (more than 50 *per cent* of the total provision or ₹ one crore or more) were made in respect of 822 sub-heads under 85 grants. Of the total provision of ₹ 70,883.62 crore made under these 822 sub-heads, ₹ 21,751.43 crore (30.69 *per cent*) was surrendered, which included 100 *per cent* surrender in 234 cases involving ₹ 6,444.58 crore.

Financial reporting

As on March 2017, there were 3,586 utilisation certificates aggregating ₹ 2,140.41 crore in respect of grants disbursed up to 2015-16 were outstanding, indicating lack of proper monitoring by the Departments in utilisation of grants given for specific purposes. Of ₹ 2,140.41 crore, 41 *per cent* (₹ 870.23 crore) pertained to Urban Development and Urban Housing Department while 18 *per cent* (₹ 383.13 crore) pertained to Industries and Mines Department.

There was pendency in submission of 8,442 detailed contingent bills amounting to ₹ 494.85 crore drawn on abstract contingent bills by the Departmental authorities. The Departments having maximum pendency of DC bills were Education (3,783 AC bills amounting to ₹ 120.75 crore); Panchayat, Rural Housing and Rural Development Department (1,436 AC bills amounting to ₹ 41.71 crore); and Social Justice and Empowerment Department (673 AC bills amounting to ₹ 61.34 crore).

There were 478 personal deposit accounts in operation in treasuries with a closing balance of ₹ 395.27 crore. Of the 478 accounts, 23 accounts having a balance of ₹ 2.02 crore were inoperative. There were instances of irregular use of personal deposit accounts.

Pendency of utilisation certificates, detailed contingent bills for long periods and irregular operation of PD accounts was fraught with the risk of fraud and misappropriation.

There were delays in submission/non-submission of accounts by autonomous bodies/authorities. In respect of 27 Autonomous bodies/ authorities auditable under section 14 of CAG's (DPC) Act, 1971, accounts were in arrears for more than five years. None of the 56 autonomous bodies auditable under Section 19(2), 19(3) and 20(1) submitted its accounts in time.

The State Government reported 158 cases of misappropriations, losses, defalcation, *etc.* involving Government money of ₹ 14.41 crore (up to March 2017) on which final action was pending. Non-recovery of amounts indicated lack of adequate efforts by the concerned Departments to make good the losses and fix responsibility.

During 2016-17, expenditure aggregating ₹ 8,608.12 crore constituting 6.34 *per cent* of the total expenditure was classified under Minor Head '800-other expenditure'. Similarly, revenue receipts aggregating ₹ 16,471.60 crore constituting 15 *per cent* of total receipts were classified under omnibus Minor Head '800 – Other Receipts'. Accounting of various important items of expenditure and revenue receipts under omnibus Minor Head –800 resulted in non-classification of diverse activities of the Government under available Minor Heads.

