

EXECUTIVE SUMMARY

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The Report

Based on the audited accounts of the Government of Tamil Nadu for the year ending March 2017, this Report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed with reference to the Tamil Nadu Fiscal Responsibility Act, 2003 and its amendments from time to time, Budget documents, Fourteenth 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 Tamil Nadu's fiscal position as on 31 March 2017. It provides an insight into trends in committed expenditure and borrowing pattern.

Chapter II is based on the audit of Appropriation Accounts and it gives a 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 Tamil Nadu's compliance with various reporting requirements and financial rules.

The Report also includes appendices of additional data collated from several sources in support of the findings. A glossary of selected terms has been given at the end of the Report.

Audit findings

Fiscal position: The revenue surplus, which prevailed during 2012-13 turned negative in the succeeding years and stood at ₹ 12,964 crore in 2016-17. During 2016-17, the State failed to achieve revenue surplus as projected in the Medium Term Fiscal Plan (MTFP). Though, the State could contain its revenue deficit within the target proposed in the Budget, it could not contain the fiscal deficit to Gross State Domestic Product (GSDP) as envisaged under the Tamil Nadu Fiscal Responsibility (TNFR) Act, Fourteenth Finance Commission (FFC), Budget and MTFP. The fiscal deficit increased from ₹ 32,627 crore in 2015-16 to ₹ 56,170 crore, an increase of 72.16 *per cent*.

Accuracy of Revenue Deficit/Fiscal Deficit: There were short transfers of ₹ 3,011 crore to Sinking Fund, Guarantee Redemption Fund, various reserve funds and defined contributory pension scheme, which resulted in understatement of Revenue and Fiscal Deficits to that extent.

Revenue receipts: Revenue receipts of the State, grew by ₹ 11,223 crore in 2016-17 over the previous year and stood at ₹ 1,40,231 crore. The annual growth rate of revenue receipts during 2016-17 stood at 8.70 *per cent*, which was much less than growth rate (11.52 *per cent*) of the General Category

States. The fluctuating growth rate of revenue receipts, increased to 8.70 *per cent* during 2016-17 against 5.38 *per cent* in the previous year. The revenue receipts as a percentage of GSDP which ranged between 11.10 and 11.55 during 2012-16 dropped to 10.80 during 2016-17. The revenue buoyancy with reference to State's own taxes decreased from 2.33 in 2015-16 to 1.28 in 2016-17 due to drop in growth rate of State's own taxes and grants-in-aid.

Revenue expenditure: Of the total expenditure of ₹ 1,99,950 crore during 2016-17, revenue expenditure (₹ 1,53,195 crore) accounted for 76.62 *per cent*. Out of the revenue expenditure, 76.95 *per cent* (₹ 1,17,889 crore) was incurred on the non-plan component. The committed expenditure (₹ 94,750 crore) stood at 67.57 *per cent* of the total revenue receipts (₹ 1,40,231 crore) of the State during 2016-17, as against 64.58 *per cent* during 2015-16.

Capital expenditure: Capital expenditure increased by ₹ 1,714 crore (9.02 *per cent*) over the previous year as against 6.70 *per cent* in 2015-16. The increase in capital expenditure during the year was mainly under Energy, Water Supply, Sanitation, Housing & Urban Development, Irrigation & Flood control, Transport and Health & Family Welfare.

Adequacy and priority of expenditure: In 2016-17, the proportion of Aggregate Expenditure to GSDP was low as compared to General Category States. Similarly, the development expenditure as a proportion of Aggregate Expenditure (67.51 *per cent*) was also lower than the average of General Category States (70.90 *per cent*) during 2016-17.

Investments and returns: Government invested ₹ 29,811 crore in statutory corporations, Government companies, joint stock companies and co-operatives. Though the average rate of return increased from 0.20 *per cent* in 2012-13 to 0.62 *per cent* in 2016-17, the return on investment during 2012-17 was meagre. On the other hand, Government paid interest at an average rate of 8.11 *per cent* on its borrowings during 2016-17.

Debt Management: The outstanding fiscal liabilities had increased from ₹ 2,23,030 crore at the end of 2015-16 to ₹ 2,83,394 crore at the end of 2016-17. The fiscal liabilities at the end of 2016-17 represented 202.09 *per cent* of the revenue receipts during the year as against 172.88 *per cent* of the revenue receipts during 2015-16. The outstanding liabilities as a percentage of GSDP was 21.82, which was marginally above the norm of 21.72 prescribed for the year 2016-17 as per FFC.

Financial management and budgetary control: During 2016-17, expenditure of ₹ 2,11,641.78 crore was incurred against the total grants and appropriations of ₹ 2,33,667.47 crore, resulting in savings of ₹ 22,025.69 crore. In view of the overall savings of ₹ 22,025.69 crore, the supplementary provisions of ₹ 33,739.27 crore proved unnecessary to the tune of ₹ 11,713.58 crore. Excess expenditure of ₹ 932.42 crore pertaining to the period of 2012 to 2016 was pending regularisation. In 21 cases, an expenditure of ₹ 0.93 crore was incurred without appropriation by the

Legislature either in the Original or Supplementary estimates. There were persistent savings of more than five *per cent* of the total provision in 22 grants and five appropriations. Supplementary provisions of ₹ 50 lakh or more in each case aggregating ₹ 1,007.07 crore obtained in 31 cases during the year 2016-17 proved unnecessary, as the expenditure did not come upto the level of original provisions. As an amount of ₹ 11,704.13 crore (5.01 *per cent* of the total provision) was surrendered by the departments on the last day of the financial year, Government could not utilise the surrendered amount for other development purposes. Rush of expenditure at the end of the year was noticed, as more than 50 *per cent* of the total expenditure was incurred in March 2017 in 103 sub-heads reflecting poor expenditure control.

Financial reporting: Departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of Utilisation Certificates in respect of grants released. Similarly, 367 autonomous bodies/institutions did not submit their accounts due up to 2016-17 to Audit. Temporary advances drawn up to 31 March 2017 by the DDOs involving an amount of ₹ 183.86 crore in 452 cases remained unadjusted. Due to operation of multiple schemes under one PD Account, only 78 PD accounts were opened against 198 authorisations. The State Government departments reported 392 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 14.88 crore up to March 2017 on which final action was pending. There were 56,739 number of cheques amounting to ₹ 306.23 crore remaining unencashed due to non-initiation of timely action by PAOs.