EXECUTIVE SUMMARY

Fiscal situation of the State

Revenue receipts as well as revenue expenditure had increased during 2013-14 to 2017-18 even after accounting for inflation. Capital expenditure had also increased from 2013-14 to 2016-17 but during 2017-18, it recorded a decline of 44 *per cent* as compared to 2016-17.

(Paragraph 1.2)

The State has achieved revenue surplus (₹ 12,552 crore) during 2017-18 as targeted in budget estimates and Medium Term Fiscal Restructuring Policy (MTFRP) 2017.

During 2017-18, the ratio of fiscal deficit to GSDP was within the targets as set in the budget estimates, MTFRP and Fourteenth Finance Commission. Further, the fiscal deficit (₹ 27,810 crore) of the State decreased by 32 *per cent* as compared to 2016-17 (after excluding UDAY impact during 2016-17). However, it was concomitant with a significant reduction of capital expenditure which reduced by 44 *per cent* in 2017-18 as compared to 2016-17.

Further, State could not achieve the ratio of total outstanding debt to GSDP as per targets in budget estimates, MTFRP and Fourteenth Finance Commission.

(Paragraphs 1.3 and 1.3.1)

Resource mobilisation

Revenue receipts grew by ₹ 21,900 crore (nine *per cent*) over 2016-17 receipts, which was lower (₹ 40,622 crore) than the budget estimates.

Revenue expenditure increased by ₹ 29,632 crore (13 *per cent)* over 2016-17, which was lower (₹ 40,895 crore) than the budget estimates.

Capital expenditure decreased by ₹ 30,701 crore (44 *per cent*) over 2016-17, which was lower (₹ 14,170 crore) than the budget estimates. Due to substantial increase in the budget provision of ₹ 36,000 crore for waiving crop loans of small and marginal farmers under revenue expenditure during 2017-18, budget provision for capital expenditure in 2017-18 (₹ 53,258 crore) was 26 *per cent* less than the budget provision during 2016-17 (₹ 71,878 crore).

Recommendation: *The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between the budget estimate and actuals are bridged.*

(Paragraphs 1.3.3, 1.4 and 1.7.1)

Defined Contribution Pension Scheme

State Government employees recruited on or after 1 April 2005 are covered under the Defined Contribution Pension Scheme. State Government did not discharge its statutory liability as it failed to contribute ₹ 465.10 crore during the financial year 2017-18 as its matching share under Defined Contribution Pension Scheme in respect of employees of Government aided institutions and autonomous bodies. During the previous financial years 2008-09 to 2016-17, State Government did not contribute ₹ 211.69 crore as its matching share under Defined Contribution Pension Scheme in respect of Government employees and employees of Government aided institutions and autonomous bodies.

Further, State Government collected ₹ 8,205.66 crore as share of Government employees, employees of Government aided institutions and autonomous bodies as well as Government share, under Defined Contribution Pension Scheme during 2008-09 to 2017-18, but did not deposit ₹ 703.16 crore with the designated authority for further investment as per provisions of the Scheme. Thus, as on 31 March 2018, there was a short transfer of ₹ 1,379.95 crore (₹ 465.10 crore + ₹ 211.69 crore+ ₹ 703.16 crore) to the designated authority and the current liability stands deferred to future year(s). Further, the State Government has created uncertainty in respect of benefits due to the employees/ avoidable financial liability to Government in future, and, thus leading to possible failure of the scheme itself.

Recommendation: *The State Government should initiate action immediately to ensure that employees recruited on or after 1 April 2005 are fully covered under the Defined Contribution Pension Scheme from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to the designated fund manager through NSDL in a timely manner.*

(Paragraph 1.7.1.3)

Adequacy of public expenditure

During 2017-18, the ratio of development expenditure, economic services expenditure and expenditure on education to aggregate expenditure was less than the average of General Category States.

(Paragraph 1.7.2.1)

Financial results of irrigation works

The Thirteenth and Fourteenth Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The gap in cost recovery improved during 2015-16 and 2016-17, however, it increased by one *per cent* during 2017-18. It has to improve in comparison with the other States of Chhattisgarh and Madhya Pradesh.

Recommendation: *The State Government may initiate measures to improve further cost recovery on irrigation projects.*

(Paragraph 1.8.1)

Investments and Returns and Loans advanced

During 2013-18, the State Government has incurred a notional loss of ₹ 25,737 crore on return on investment on account of difference between the Government's borrowing cost and the return on investment on working PSUs. Also, the State Government has incurred a notional loss of ₹ 1,172 crore on account of difference in the interest received on the loans advanced and that the Government incurred on its borrowings.

Recommendation: *The State Government should rationalise its investments and loans advanced to various entities in such a way that the return on investment and loans at least matches the Government borrowing costs.*

(Paragraphs 1.8.3 and 1.8.4)

Transactions under Reserve Funds

The total accumulated balance at the end of 2017-18 in 35 Reserve Funds was ₹ 59,280.07 crore. However, transactions depicted by the State Government against reserve funds were merely the book entries, which violates the spirit underlying the creation and operation of reserve funds. There was no real investment against the reserve funds, except in respect of two inoperative Reserve Funds against which ₹ 45.20 crore was invested decades ago. Negative and debit balances against specific reserve funds need regularisation by way of appropriation from the Consolidated Fund.

Recommendation: *The Finance Department should review the practice of treating transaction and balances under reserve funds as book entries and adhere to the principles of cash accounting by actual investment of balances with the Reserve Bank of India.*

(Paragraph 1.9.2)

Sinking Fund

The Twelfth Finance Commission (XII FC) recommended creation of Consolidated Sinking Fund (CSF) for amortisation of outstanding liabilities by the State Governments. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 *per cent* of outstanding liabilities at the end of the previous financial year. Accordingly, the State Government was required to contribute ₹ 2,116.12 crore (0.5 *per cent* of ₹ 4,23,223.78 crore, i.e., the outstanding liabilities as on 31 March 2017) in 2017-18. The State Government, however, has not taken any action to setup the CSF (subsuming the existing Fund) in terms of these guidelines.

During 2017-18, the State Government transferred ₹ 12,232.23 crore to the existing Sinking Fund by book transfer. Out of this fund, an amount of ₹ 4,422 crore, equivalent to repayment of market loans, was transferred and credited to Revenue Receipts under the Consolidated Fund without involving any cash outflow from sinking fund. The amount transferred from the Sinking Fund (₹ 4,422 crore) to the Revenue Account overstated the

Revenue Surplus of the Year. Further, there was no investment against the closing balance of ₹ 57,469.61 crore in the Sinking Fund as on 31.03.2018. Apart from this, the net addition of ₹ 7,810 crore to the Sinking Fund during the year 2017-18 resulted in increasing the outstanding liabilities of the State to that extent.

Recommendation: *The State Government may consider accepting the recommendation of the XII FC and create a Consolidated Sinking Fund to be invested by RBI. Further, the transfers out of the fund are not to be treated as Revenue Receipts. In any event, the State Government should ensure that the Fund balances are actually invested and are not mere book entries.*

(Paragraph 1.9.2.1)

State Disaster Response Fund (SDRF)

Contrary to GoI guidelines that the SDRF should be operated under the category "Reserve Funds bearing Interest", State Government operates its SDRF under the category "Reserve Funds not bearing Interest". Further, the balances in the Fund being only book entries are not invested as laid down in the SDRF guidelines. The interest of ₹ 37.22 crore for the year 2017-18 had not been paid by the State Government.

Further, the State Government received ₹ 119.67 crore from NDRF during the year 2017-18 which was booked under MH 1601- Grants-in-aid from Central Government and treated as receipt. However, this grants-in-aid of ₹ 119.67 crore was not transferred to the State's SDRF account during the year 2017-18. As a result the revenue surplus of State Government was overstated and fiscal deficit understated by ₹ 119.67 crore.

Recommendation: *The State Government should transfer the SDRF balances to MH 8121- General and Other Reserve Funds under the category "Reserve Funds bearing Interest" and remit to the Fund accrued interest as per SDRF guidelines. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.*

(Paragraph 1.9.2.3)

Contingent Liabilities – Status of Guarantees

The State Government has not created any Guarantee Redemption Fund as per recommendations of twelfth finance commission. The State Government was required to make minimum annual contributions of ₹ 290.75 crore (0.5 *per cent* of outstanding guarantee of ₹ 58,149.03 crore at the beginning of the year 2017-18) which was not done. This has impact of overstating the revenue surplus and understating the fiscal deficit by ₹ 290.75 crore.

The State Government issued guarantees in respect of 16 institutions, of which only two institutions were to pay guarantee fee and the remaining 14 institutions were exempted. It was noticed that out of total receivable guarantee fee of ₹ 10.56 crore from two institutions, U.P. Rajya Vidyut Utpadan Nigam Limited had not paid the guarantee fee of ₹ 9.74 crore.

Recommendation: *The State Government should create and operate the guarantee redemption fund as per the guidelines of XII FC. State Government should also ensure that guarantee fees are realised promptly. The Government should stop financial support to these institutions which have not paid the guarantee fees and/or are also in arrears of accounts.*

(Paragraph 1.9.3)

Excess expenditure requiring regularisation

There was an excess disbursement of ₹ 1,337.17 crore over the authorisation made by the State Legislature under two Grants and two Appropriations during the financial year 2017-18. Excess disbursements of ₹ 29,648.64 crore under 96 Grants and 40 Appropriations pertaining to the years 2005-06 to 2016-17 remained to be regularised by the State Legislature. This is in violation of Articles 204 and 205 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Recommendation: *The State Government should ensure that all the existing cases of excess disbursement are placed before the State Legislature for regularisation at the earliest. State Government should examine the reasons for excess disbursements and fix responsibility. Further, Treasury Officers should be directed not to pass expenditure beyond budget provision and in future such excess expenditure may be completely stopped.*

(Paragraph 2.2.1)

Savings

Savings of ₹ 92,681.47 crore occurred in 58 cases relating to 40 grants/ appropriations exceeding ₹ 100 crore in each case. Further, there were 16 cases, out of above 58 cases, where savings exceeds ₹ 1,000 crore in each case. In 26 cases involving 20 grants, there were persistent savings (₹ 100 crore and above) ranging between ₹ 100.12 crore and ₹ 17,493.77 crore during the preceding five years.

Recommendation: *The Finance Department should review the reasons for non-utilisation of the provisions under various schemes and take steps to make more judicious provisions in future years.*

(Paragraph 2.2.2)

Advances from the Contingency Fund - Not recouped

As on 31 March 2018, the amount of ₹ 463.08 crore drawn from the Contingency Fund remained un-recouped, which included previous year's un-recouped balances of ₹ 300 crore. During the year 2017-18, ₹ 413 crore was disbursed, out of which the advances of

₹ 125 crore drawn during the year 2017-18 for loan to U.P. Cooperative Sugar Mills Federation Limited was to be recouped from the supplementary budget of 2018-19. As against the remaining outstanding advance of ₹ 288 crore drawn during the year 2017-18, only ₹ 249.92 crore was recouped till 31 March 2018.

Recommendation: *The State Government should ensure timely recoupment of advances taken from the Contingency Fund.*

(Paragraph 2.2.9)

Personal Deposit (PD) Accounts

State Government did not provide details of addition to and disbursements from PD Accounts during the financial year 2017-18. Out of the balance of ₹ 4,688.14 crore in 1,328 PD Accounts as on 31 March 2018, ₹ 2,460.82 crore pertained to 31 PD Accounts under Major Heads 8342-120-Miscellaneous Deposits, which is not the designated head of accounts for PD Accounts. Further, in contravention of codal provisions, an amount of ₹ 108.70 crore was irregularly parked in 641 PD Accounts, despite these PD Accounts remaining inoperative for more than three years. Such practices violate Legislative intent, which is to ensure that funds approved by it for the financial year are spent during the financial year itself. Further, non-reconciliation of balances in PD accounts and not transferring the unspent balances lying in PD accounts to Consolidated Fund of State before the closure of the financial year entails the risk of misuse of public funds, fraud and misappropriation.

Recommendation: *The Finance Department should review all PD accounts to ensure that all amounts unnecessarily lying in these PD accounts are immediately remitted to the Consolidated Fund. Further, the Finance Department should reiterate the instructions contained in the financial rules and ensure that appropriate action is taken against departmental officers who fail to follow the rules.*

(Paragraph 3.1)

Non-submission of Utilisation Certificates

As on 31 March 2018, a total of 1,53,949 number of Utilisation Certificates (UCs) for non-recurring grants involving ₹ 83,979.44 crore released during financial years 2001-02 to 2017-18 remained outstanding. Therefore, there is no assurance that the amount of ₹ 83,979.44 crore has actually been incurred for the purpose for which it was sanctioned/authorised by the Legislature. High pendency of UCs was fraught with the risk of misappropriation of funds and fraud.

Recommendation: *The State Government should take action on recommendation made in Para No. 3.11 of the Comptroller and Auditor General of India's Report No. 1 of 2018 – Government of Uttar Pradesh and ensure that internal control mechanism of the Departments to watch timely submission of the UCs is put in place without further delay and all pendencies are reviewed before release of fresh grants.*

(Paragraph 3.2)

Building and Other Construction Workers (BOCW) Welfare Cess

BOCW Board has not finalised its accounts since its constitution (November 2009). Since the Board has not prepared accounts since inception, the authenticity of receipts and expenditure could not be ascertained in Audit.

Orders of the Government (August 2013 and September 2016) to transfer the cess directly to the bank account of the Board without bringing it into the Consolidated Fund of the State violates the provision of Article 266 (1) of the Constitution of India. Consequently, it is not ascertainable from the Accounts of State Government as to how much money was collected by the Cess Assessment Officers and Cess Collectors on account of cess, fee etc. and how much money was transferred to the Board.

As per the provisional data made available by the Board, the expenditure incurred by the Board for welfare of workers against available funds ranged from only five to seven *per cent* and covered just eight to 15 *per cent* of the registered workers.

Recommendation: *The U.P. BOCW Welfare Board should fulfil its mandate of improving the working conditions of building and other construction workers and providing adequate financial assistance to them. The State Government should also review its orders to transfer the cess directly to the bank account of the Board instead of Consolidated Fund of the State.*

(Paragraph 3.9)

Transfer of additional stamp duty to Development Authorities

State Government has not opened a distinct sub-head to account for the additional stamp duty, in the absence of which, it is not clear how much money was received by the Government on account of two *per cent* additional stamp duty and whether all the moneys received were transferred to the concerned municipal corporations/municipalities/ parishads/development authorities in specified proportions.

State Government issued order (September 2013) authorising transfer of 25 *per cent* of the additional stamp duty to a Dedicated Urban Transport Fund. This contravenes the U.P. Urban Planning and Development Act which does not provide for any such apportionment.

Recommendation: *The State Government should ensure that the accounts fully and transparently capture the receipts and transfer of the additional stamp duty to the authorities/municipalities etc. as specified under the U.P. Urban Planning and Development Act. State Government should also review the Order authorising transfer of 25 per cent of the additional stamp duty to a Dedicated Urban Transport Fund which is not provided under the Act.*

(Paragraph 3.10)

Delay in Finalisation of accounts of PSUs/Corporations

The accounts of 54 working PSUs/ Corporations (207 accounts) and 34 non-working PSUs/ Corporations (531 accounts) were in arrears of one to 36 years. State Government had provided budgetary support of ₹ 57,780.21 crore (equity: ₹ 19,605.36 crore, loans: ₹ 4,581.27 crore, capital grants: ₹ 11,210.69 crore, other grants: ₹ 9,773.86 crore and subsidies: ₹ 12,609.03 crore) and guarantees of ₹ 42,527.09 crore to 24 working Companies/Statutory Corporation during the period for which accounts of these PSUs were in arrears. Thus, even in the absence of accounts to judge the genuineness of demands for financial support from these PSUs, the Finance Department has regularly provided budgetary support to these PSUs. State Government needs to see if this is value-for-money expenditure.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts, ensure that the accounts are made current within a reasonable period, and review continued financial support in all cases where accounts continue to be in arrears.*

(Paragraph 3.13)

Dividend not declared

Contrary to the State Government's policy that all profit earning PSUs should pay a minimum return of five *per cent* on the paid up share capital contributed by the State Government, nine profit earning PSUs did not declare dividend of ₹ 540.36 crore.

Recommendation: *The State Government should ensure that the profit earning PSUs deposit the specified dividend invariably into the Government account at the close of the year.*

(Paragraph 3.14)

Opaqueness in accounts

The State Government departments routinely operated minor head 800 which is intended to be operated when the appropriate minor head has not been provided in the accounts. During 2017-18, ₹ 18,383.80 crore under receipts and ₹ 27,162.32 crore under expenditure were booked under minor head 800 resulting in opaqueness of transactions.

Recommendation: *The Finance Department should, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate heads of account.*

(Paragraph 3.16)

Apportionment of balances as on reorganisation of the State

The State Government was yet (since November 2000) to apportion ₹ 8,757.37 crore under the Deposits and Advances between the successor States of Uttar Pradesh and Uttarakhand.

Recommendation: *The State Government should expedite the apportionment of balances under Deposits and Advances (₹ 8,757.37 crore) between the two successor States.*

(Paragraph 3.17)