Executive Summary

1 The Report

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Telangana for the year ended March 2017. The Report has three Chapters.

Chapter 1 *is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2017. It presents and analyses the State Government's resources and their application.*

Chapter 2 *is based on audit of the Appropriation Accounts and reviews the allocative priorities of the State Government and the manner in which the allocated resources were managed by the various Departments.*

Chapter 3 *gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during 2016-17.*

The Report has 41 appendices containing additional data collated from several sources in support of the findings.

2 Audit findings

2.1 Analysis of Finances of the State Government

The State registered revenue surplus of ₹1,386 crore during 2016-17. The revenue surplus was overstated by ₹6,778 crore on account of irregular accounting. Thus, the State had revenue deficit of ₹5,392 crore in 2016-17. Fiscal deficit (₹35,281 crore) which stood at 5.46 per cent of Gross State Domestic Product (GSDP) was understated by ₹2,500 crore due to crediting of borrowed funds as Revenue Receipts.

The ratio of fiscal deficit to GSDP excluding amount transferred under Ujwal DISCOM Assurance Yojana (UDAY) scheme (₹7,500 crore) was 4.3 per cent. This exceeded the ceiling of 3.5 per cent stipulated for 2016-17 by the 14th Finance Commission and targeted in Medium Term Fiscal Policy Statement (MFPS) of the State under Fiscal Responsibility and Budget Management (FRBM) legislation.

Under UDAY scheme, against ₹8,931.51 crore borrowed through UDAY bonds during the year, Government released an amount of ₹7,500 crore only to DISCOMs to end of the year. The entire amount transferred to DISCOMS has been booked under Capital Expenditure as equity. Booking of ₹3,750 crore (50 per cent of ₹7,500 crore released to DISCOMs) as equity instead of grant resulted in overstatement of revenue surplus to that extent. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.

Capital expenditure (₹33,371 crore) was more than the Budget Estimates (₹29,313 crore). Its ratio to total expenditure stood at 28.22 per cent which was higher than the combined average (19.70 per cent) of General Category States. The capital

expenditure of the State excluding ₹7,500 crore transferred to DISCOMs under UDAY scheme was ₹25,871 crore.

During the year, revenue expenditure accounted for 69 per cent of the State's aggregate expenditure, which was in the nature of current consumption, leaving only 31 per cent for investment in infrastructure and asset creation.

Devolution to the State was enhanced to the tune of ₹2,525 crore during 2016-17 on the basis of 14th Finance Commission recommendations. Audit noted that additional devolution led to increase in revenue expenditure by ₹5,536 crore over previous year.

During 2016-17, Government earned a meagre return of 0.54 per cent on its investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. These investments were funded mainly through borrowings on which it paid interest at 7.40 per cent. Investments (₹13,075 crore) increased 10 times (₹11,747 crore) over previous year (₹1,329 crore), the increase in return on investments was negligible at rupees one crore, indicating non-performing investments. The current level of recovery of loans was low with a significant gap between disbursements (₹3,402 crore) and recovery (₹156 crore).

The maturity profile of Debt as on 31 March 2017 indicated that State has to repay 49 per cent of debt amounting to ₹56,388 crore within the next 7 years.

The repayment of Debt as percentage of tax revenue increased from 7.12 during 2015-16 to 32.16 during 2016-17.

(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 excess expenditure or substantial savings with reference to provisions made during the year, exhibiting weakness in expenditure monitoring and control.

The overall savings of ₹31,662.69 crore (18 per cent of budget provision) were the result of savings of ₹52,824.28 crore partially offset by an excess of ₹21,161.59 crore under various sections (Voted/Charged). In view of the final savings, the supplementary grant of ₹41,235 crore proved excessive.

Excess expenditure over the allocations amounting to ₹6,184 crore pertaining to the years 2014-15 and 2015-16 was yet to be regularized as of December 2017. The cases of excess expenditure over grants are serious breaches and are in violation of the wish of the Legislature. It is important that responsibility is fixed in this regard.

Against the total savings of ₹31,662.69 crore, an amount of ₹49,283.53 crore was surrendered during the year 2016-17, of which ₹41,384.99 crore (84 per cent) was surrendered on the last day of the year, i.e., 31 March 2017. It affects the availability of funds in priority areas and desired outcomes.

Excessive/unnecessary/inadequate re-appropriation of funds was also observed. Re-appropriations to heads where original provisions were not made, etc. were noticed which showed lack of coordination between Finance and the line departments. Analysis showed that out of 10,060 items of re-appropriations made by the State Government during the year 2016-17, specific reasons were not intimated in respect of 7,338 items (73 per cent).

Several policy initiatives taken up by Government were either unfulfilled or were partially executed, primarily due to non-approval of scheme guidelines/modalities, poor project implementation, apart from non-release/short release or non-utilisation of budgeted funds.

Spirit of the statutory provision was disregarded by not utilizing the funds allocated under Scheduled Castes Sub-Plan (60 per cent) and Tribal Sub-Plan (57 per cent).

(Chapter 2)

2.3 Financial reporting

Audit observed various instances of non-observance of financial rules and procedures and absence of financial controls.

There were variations in Personal Deposit account balances shown at web portal and ledger at the end of the year. An amount of ₹10,873 crore was lying in 28,087 Personal Deposit accounts to end of the year. Paying interest at higher rates (7.40 per cent) on borrowings while keeping huge amounts in PD Accounts which did not bear any interest showed poor cash and financial management of the State Government.

Detailed Contingent bills were not submitted for an amount of ₹475 crore drawn on 3,485 Abstract Contingent bills. In the absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Un-adjustment of AC Bills for long periods in violation of prescribed rules and regulations was fraught with the risk of embezzlement and corruption.

Utilisation Certificates were not furnished or were furnished without actual utilisation for the funds drawn for execution of schemes. There were delays in submission of annual accounts by 181 bodies/ authorities which diluted accountability and defeats the very purpose of preparation of accounts.

Omnibus Minor Head 800 continued to be operated for recording expenditure of ₹14,156 crore and receipts of ₹3,287 crore affecting transparency in financial reporting and distorting analysis of allocative priorities and quality of expenditure. This was done in several cases even where there were earmarked heads of accounts.

Incidence of Non-reconciliation was 67 per cent (₹73,783 crore) of total expenditure and 77 per cent (₹55,116 crore) of total receipts during the year. This leads to the risk of non-detection of leakages in revenue and irregularities in expenditure.

(Chapter 3)