Executive Summary

Background

Andhra Pradesh Government enacted "Fiscal Responsibility and Budget Management (FRBM) Act" in October 2005 as recommended by the Twelfth Finance Commission (TFC). It sets out a reform agenda through fiscal correction path in the medium term with long-term goal of securing growth stability for its economy. The State Government's commitment to carry forward these reforms is largely reflected in certain policy initiatives announced in the budgets subsequently. While the benefits of FRBM legislation have been realized to a great extent already, in terms of reduction in major deficit indicators etc. the State Government's resolve to implement VAT, introduction of New Pension Scheme, ceiling on Government guarantees and a host of other institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and promote fiscal stability.

The State Government has established an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of outcome budgets. These outcome indicators tend to serve the limited purpose of measuring the department-wise performance against the targets. They do not, however, give the status of financial management including debt position, off-budget liabilities and cash management etc. for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's civil reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for over three years since the FRBM legislation. Since the Audit comments on State Finances formed part of the civil audit report, it was felt that these comments remained camouflaged in the large body of audit findings on compliance and performance audits and hence did not receive due attention. In recognition of the need to bring State finances to centre stage once again, a stand alone report on State Government finances is considered appropriate. Accordingly, from the report year 2009 onwards, it has been decided to bring out a separate volume titled "Report on State Finances".

The report

Based on the audited accounts of the Government of Andhra Pradesh for the year ending March, 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Andhra Pradesh Government's fiscal position as at 31 March 2009. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of central funds transferred directly to the State Implementing Agencies through off-budget route. It also makes an assessment of the adequacy of the State's fiscal priorities to developmental, social sectors and capital expenditure.

Chapter 2 is based on Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Andhra Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Return to fiscal Correction: The Government of Andhra Pradesh has been largely achieving the Fiscal Reform targets every year in post FRBM legislation period. State registered revenue surplus since 2006-07 and the fiscal deficit was well within the ceiling prescribed by the FRBM Act as relaxed by the Government of India for 2008-09 (para 1.9.1). However, it was noticed that the State's own tax revenue recorded lowest growth rate of 15.85 per cent during the current year (para 1.3.1).

The State should ensure better tax compliance to improve its own tax revenue to 9.75 per cent of GSDP as projected in FRBM Act.

High incidence of non-plan revenue expenditure (NPRE): The revenue expenditure constituted 82 per cent of total expenditure during 2008-09. The NPRE component of revenue expenditure exceeded significantly both the normative projection of TFC and State's projection in its FCP for 2008-09 (para 1.4.1). The committed expenditure on salaries and wages, pensions, interest payments and subsidies constituted 80 per cent of NPRE during 2008-09. However during the current year the salary expenditure was 30 per cent of revenue expenditure net of interest and pension payment as against the TFC recommendations of 35 per cent (para 1.4.2).

Government should initiate suitable measures to further reduce the non-plan revenue expenditure.

Priority to Capital Expenditure: The State Government entrusted greater priority to capital sector in its FRBM legislation. However, the capital expenditure decreased during 2008-09 over previous year and its ratio to aggregate expenditure was less than the All States average (para 1.5.1).

Adequate thrust to development and social sector expenditure: State Government has given adequate priority to development expenditure since the ratio of DE/AE and per capita expenditure was more than the All States average. However, adequate priority was not given to social sector as evident from that the ratio of SSE/AE was less than the All States average (para 1.5.1).

Government may consider re-prioritisation of outlays in favour of social sector and capital expenditure.

Incomplete Projects: Cost and time overruns of incomplete projects are inevitable by-products of deficient planning. Inordinate delay in completion of 30 major and medium irrigation projects led to huge cost overrun of Rs 12506 crore (para 1.6.1).

The State can put in place an action plan to complete these projects in a time frame so that people derive envisaged benefits in the quickest possible time.

Review of Government Investments: The average return on Andhra Pradesh Government's investment in Statutory Corporations, Government and Joint Stock Companies and Co-operative Banks and Societies was 0.59 *per cent* during the last five years while the Government paid average interest rate of 8.85 *per cent* on its borrowings (para 1.6.2). This is obviously an unsustainable proposition.

The State Government should therefore hasten to seek better value for money in investments as otherwise high-cost borrowed funds will continue to burden investments in projects with low financial return. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification for the high-cost borrowings.

Prudent Cash Management: The cost of holding surplus cash balances is high. In 2008-09, interest received on investment of cash balances in GOI Treasury bills was only 3.43 *per cent* while the Government borrowed on an average rate of 7.88 per cent (para 1.6.5).

Proper debt management through advanced planning could minimize the need to hold large cash surpluses. Ways and Means facility of RBI can also be judiciously resorted to as long as the State does not avail of overdraft facility.

Debt Sustainability: The quantum spread together with primary deficit has been positive for the last five years resulting in decline in Debt/GSDP ratio. These trends indicate the tendency towards debt stabilization which would eventually improve the debt sustainability of the State. However, the resource gap has been negative in four years out of the five year period indicating that the incremental non-debt receipts were not even sufficient to meet the incremental primary expenditure and interest burden (para 1.8).

The State needs to step up its resource mobilisation to maintain debt stability and in turn sustainability in the medium to short term.

Oversight of funds transferred directly by the Centre to the State Implementing Agencies: Funds flowing directly to the implementing agencies through off-budget route inhibit FRL requirements of transparency and therefore escape accountability. There is no single agency monitoring its use and no data is readily available on the amount spent in any particular year on major flagship and other important schemes (para 1.2.2).

A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Principal Accountant General (A&E).

Financial management and budgetary control: During 2008-09, the overall saving of Rs 25949 crore was the net effect of saving of Rs 26658 crore and excess of Rs 709 crore which required regularisation under Article 205 of the Constitution of India (para 2.2). The savings were mainly due to making huge provisions in anticipation of GOI funds and non-availment of Ways and Means advances and lump sum provisions, short release of teaching grants to Local Bodies etc (para 2.3.1). There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Besides, there was a rush of expenditure to the end of the year. In many cases, the anticipated savings were either not surrendered or surrendered in the last two days of the year leaving no scope for utilizing these funds for other development purposes. Detailed bills were not submitted for large amount of advances drawn on abstract contingent bills.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions (para 3.1). Delays were also noticed in submission of annual accounts by some autonomous bodies and departmental undertakings (paras 3.2 to 3.4). There were instances of embezzlements, defalcation, misappropriations (para 3.5) and overpayment of pension/ family pension (para 3.6). Departmental enquiries in such cases should be expedited to bring the defaulters to book.