

# Executive Summary

## Background

The Delhi Government has put in place an institutional mechanism on fiscal transparency and accountability as is 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 big picture of the status of financial management including debt position, for the benefit of the state legislature and other stakeholders.

Although CAG's reports in the past have commented upon the Government's finances, since these formed part of the civil audit report, it was felt that the audit findings on state finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring state finances to centrestage once again, a stand-alone report on State Government finances is considered an appropriate audit response. 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 Delhi for the year ending March 2010 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 Finance Accounts and provides a broad perspective of the finances of Delhi Government for the year ending March 2009. It also analyses critical changes in the major fiscal aggregates relating to the previous years keeping in view the overall trends during the last five years.

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

**Chapter 3** is an overview on the Delhi government's compliance with various financial rules, procedures and directives during the year ended 31 March 2009. The report also has an appendage of additional data collected from several sources in support of the findings.

### **Adequate thrust to Development expenditure**

In both the years under consideration viz. 2005-06 and 2008-09, Aggregate Expenditure as a percentage of Gross State Domestic Product is lower in Delhi compared to all states average. In 2008-09, the Aggregate Expenditure/Gross State Domestic Product ratio for Delhi was closer to the all states average than what it was in 2005-06. In both years under consideration Social Sector Expenditure as a proportion of Aggregate Expenditure was higher in Delhi than the all states average indicating adequate fiscal priorities to Social Sector Expenditure. In case of Development Expenditure, adequate fiscal priority was given in 2005-06 and 2008-09 (percentage of Development Expenditure/Aggregate Expenditure for Delhi was higher than all states). Capital Expenditure as a proportion of Aggregate Expenditure was lower in Delhi than the all states average in 2005-06 indicating low fiscal priority to Capital Expenditure. However, this position was reversed during the current year when the Capital Expenditure/Aggregate Expenditure ratio for Delhi was much higher than the all states average. Despite the relatively low Aggregate Expenditure as a percentage of Gross State Domestic Product in Delhi, the per capita expenditure on Development Expenditure, Social Sector Expenditure and Capital Expenditure was higher in both the years compared to national average.

### **Review of the state government investments**

The average return on the investment was a meagre 0.49 *per cent* in the last three years (2006-07 to 2008-09) while the Government paid, on an average, interest rate of 9.7 *per cent* on its borrowings during 2007-08 (Para 19.6). 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 returns. 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.

### **Financial management and budgetary control**

During 2008-09, there was overall saving of Rs.1239.39 crore offset by excess of Rs.17.35 crore, which requires regularization under Article 205 of the Constitution of India (para 2.3.5). The savings were mainly due to release of less grants to various organisations. Under Education large savings persisted for the last three years (para 2.1). There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Besides, there was a rush of expenditure towards the end of the year. In many cases, the anticipated savings were either not surrendered or surrendered on the last days of the year leaving no scope for utilizing these funds for other priority development purposes. Detailed bills were not submitted for large amount of advances drawn on abstract contingent bills. Budgetary controls should be strictly observed to

avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

### **Financial reporting**

State Government's compliance with various rules, procedures and directives was unsatisfactory as is evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. Delays were also noticed in submission of annual accounts by some autonomous bodies and departmental undertakings. There were instances of theft and misappropriations/losses of material. Internal controls in all the organisations should be strengthened to prevent such cases in future.