

EXECUTIVE SUMMARY

Background

In May 2005, Himachal Pradesh Government responded to the Twelfth Finance Commission's recommendation by legislating its "Fiscal Responsibilities and Budget Management Act (FRBM)." It set out a reform agenda through fiscal correction path in the medium term with the 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 realised 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 will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and to promote fiscal stability.

The State Government has done well in establishing 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 'big picture' of the status of financial management including debt position and cash management, etc., for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's civil audit reports step in to fill this gap. The Comptroller and Auditor General's reports have been commenting upon the Government's finances for over four years since the FRBM legislation and have published four reports already. Since these comments 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 center-stage once again, a stand-alone report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, Comptroller and Auditor General had decided to bring out a separate volume titled "Report on State Finances." This is the second edition of this endeavour.

The Report

Based on the audited accounts of the Government of Himachal Pradesh 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 the audit of Finance Accounts and makes an assessment of Himachal Pradesh Government's fiscal position as on 31 March 2010. 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.

Chapter 2 is based on audit of Appropriation Accounts and it 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 Himachal 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 State had achieved five out of eight targets as set out in FRBM Act/TFC during 2009-10. There is reasonable prospects of returning back to fiscal correction path if efforts are taken to increase tax compliance, reduce tax administration costs, collection of revenue arrears and prune unproductive expenditure so that deficit is curtailed. Efforts should also be made to improve collection of non tax revenue so that recourse to borrowed funds from GOI can be reduced.

Funds directly transferred by GOI: The GOI directly transferred ₹923.48 crore to the State Implementing Agencies thereby increasing the total availability of State resources from ₹19754 crore to ₹20677 crore. There was however, no single agency to monitor the receipt/transfer of funds directly by GOI and therefore, utilization of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

Greater priority to capital expenditure: The State had an increasing trend in capital expenditure upto 2008-09 which was indicative of improvement in social as well as economic services. But during 2009-10 the capital expenditure decreased by ₹136 crore over previous year. Evidently less priority was given to social and economic services and may have an adverse impact on the social and economic health of the State if left unattended. A monitoring organ should be put in place to ensure effective budgetary system and keep a vigil on how prudently the Government money is being utilised so that value for money is channelised in its entirety to the intended beneficiaries.

Review of Government investments: A performance based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed

with low financial but high socio-economic returns and justify if high cost borrowings are worth being channelized there.

Initiative for fiscal correction: The ThFC has recommended a target to achieve debt stock of 25 *per cent* of GSDP by 2014-15. But the State has not even been able to achieve the target of 31 *per cent* as recommended by TFC and its debt stock as on 31 March 2010 stood at 56 *per cent* of GSDP. The State Government therefore needs to gear up its activities so that at least the target set out by the ThFC can be achieved.

Financial Management and budgetary control: Excess expenditure of ₹887.80 crore requires regularisation under Article 205 of the Constitution of India. Parking of funds in Deposit Accounts and Personal Deposit Accounts, to avoid lapse of budget, is fraught with the risk of misuse of funds and therefore, needs to be avoided. Expenditure should be planned in advance and incurred uniformly throughout the year. Budgetary controls should be strictly observed to avoid such deficiencies in financial management.

Monitoring mechanism needs to be strengthened: The Abstract Contingent Bills amounting to ₹93.70 crore had not been adjusted for long periods of time which is fraught with the risk of misappropriation and therefore needs to be monitored closely.

Financial reporting: There were delays in furnishing utilisation certificates amounting to ₹ 829.48 crore in respect of 26,057 cases for periods ranging upto 9 years and above against the loans and grants from various grantee institutions. There were instances of losses and misappropriation that indicate inadequacy of controls in the departments which needs to be strengthened. An effective mechanism also needs to be put in place to ensure speedy settlement of cases relating to misappropriations and losses. Instances of inadequate response to Audit findings and observations resulted in erosion of accountability and therefore needs to be addressed appropriately.