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## EXECUTIVE SUMMARY

### Background

In January 2006, the Madhya Pradesh Government enacted the Fiscal Responsibilities and Budget Management (FRBM) Act. It laid down a reform agenda through a fiscal correction path in the medium term with the long term goal of securing growth stability for its economy. The Government's commitment to carry forward these reforms is reflected in the policy initiatives announced in its subsequent budgets. The benefits of the FRBM legislation have been realized in terms of achieving of revenue and fiscal deficit targets relative to GSDP and keeping the ratio of total liabilities to GSDP within the ceiling limit of 40 *per cent* prescribed under the FRBM Act.

### The Report

Based on the audited accounts of the Government of Madhya Pradesh for the year ended 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 the Finance Accounts and gives an assessment of the Madhya Pradesh Government's fiscal position as at 31 March 2010. It provides an insight into the trends of committed expenditure and borrowing patterns besides giving a brief account of Central funds transferred directly to State implementing agencies through the off-budget route.

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

**Chapter 3** is an inventory of the Madhya Pradesh Government's compliance with various reporting requirements and financial rules. The report also compiles the data collated from various government departments/ organizations in support of the findings.

### Audit findings and recommendations

#### Management of Fiscal imbalances and resource mobilization

- The fiscal position of the State viewed in terms of the key fiscal parameters—revenue, fiscal and primary deficit/surplus – indicated a mixed trend in 2009-10 as the revenue surplus, fiscal deficit and primary deficit substantially increased relative to the previous year.
- The increase in the revenue surplus of the State was mainly due to the increase of growth in the State's own resources including Central transfers comprising the State's share in Central taxes and duties and grants-in-aid from GOI during

2009-10 as compared to the previous year.

- Fiscal deficit relative to GSDP increased from 2.58 *per cent* in 2008-09 to 3.19 *per cent* in the current year, but remained within the 3.73 *per cent* ceiling prescribed in Budget Estimate and less than four *per cent* permitted by GOI in order to counter the impact of the economic slowdown.

#### **Arrears of Revenue**

- The arrears of revenue as on 31 March 2010 amounted to ₹897.46 crore, of which ₹615.93 crore (excluding the amount related to the Transport Department) were outstanding for more than five years. In addition, ₹1,720.92 crore was pending in respect of the Mining Department on account of litigations in courts.
- The Compound Annual Growth Rate (CAGR) of non-tax revenue receipts in Madhya Pradesh during the last decade has been slow in comparison to that in other General Category States.

#### **Management of liabilities**

- The high growth of fiscal liabilities (12.28 *per cent* over the previous year) is a matter of concern and prudent debt management will have to be ensured to keep the growth of fiscal liabilities in check.
- A Sinking Fund for amortization of loans had not been set up by the State Government. The ratio of total liabilities to GSDP, although within the ceiling limit of 40 *per cent* prescribed by the FRBM Act 2005 continued to increase due to persistent increase in fiscal deficits till the current year.
- The maturity profile for repayment of about 16 *per cent* of the State's debt was not available as information had not been received from the State Government/Reserve Bank of India. It is critical to have clarity on the repayment schedule of debts.

#### **Net availability of funds**

- During the current year, internal debt redemption was 71 *per cent* of fresh debt receipts and redemption of GOI loans was 86 *per cent* while in the case of other obligations, repayments were 93 *per cent* of the fresh receipts, indicating that the fresh debt receipts were mainly utilised for repayment of debt.
- Repayments of internal debt and loans and advances from the Government of India included 68 *per cent* on account of payment of interest and debt relief, indicating that only 32 *per cent* was for repayment of Principal Debt.

### **Return on Government investments**

- The average return on the investment made by the Government was 0.61 *per cent* during the last three years while the Government paid an average interest rate of 7.30 *per cent* on its borrowings during 2007-10. The Government needs not only to invest its high cost borrowings more judiciously to get better returns but also to address the losses on account of various sick units by their restructuring and rehabilitation and/or by considering disinvestment of such units.

### **Expenditure Management and Fiscal Priority**

- The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure continued to share a dominant proportion of the total expenditure at 75 *per cent* during 2009-10, leaving less resources for expansion of services and creation of assets. Moreover, within the revenue expenditure, the Non-Plan Revenue expenditure (NPRE) of ₹26,059 crore in 2009-10, remained significantly higher than the normatively assessed level of Twelfth Finance Commission (TFC) (₹19,257 crore) for the year. Further, salary and wages expenditure, pension payments, interest payments and subsidies constituted about 78 *per cent* of the NPRE during the year. Decrease in the proportion of capital expenditure on Social Services and marginal decline in the Economic Services to total expenditure and also fall in revenue expenditure on Operation and Maintenance during the current year over the previous year indicated decline in the quality of services.
- During 2000-09, the CAGR of revenue expenditure on the education and health sectors in the case of Madhya Pradesh was less than that of other General Category States. This means that the expenditure in these sectors needs to be increased.
- The expenditure pattern in the education and health sectors needs correction in the ensuing years as per the norms of the TFC according to which the Non-Plan salary expenditure in these sectors should increase only by five to six *per cent* while non-salary expenditure under Non-Plan heads should increase by 30 *per cent* per annum during the award period.
- The priority given to expenditure on the education and health sectors in Madhya Pradesh, however, was not adequate in both the years 2005-06 and 2009-10 as their ratios to Aggregate Expenditure (AE) were lower than the General Category States' Average. Greater fiscal priority may be given to these sectors as other General Category States are spending a greater proportion of the aggregate expenditure on these heads than Madhya Pradesh.

### **Oversight of funds transferred directly from Government of India to State implementing agencies**

- Funds flowing directly to State implementing agencies through the off-budget routine inhibits FRBM requirements of transparency and therefore bypasses accountability. A system has to be put in place to ensure proper accounting and accountability of GOI funds that are transferred directly to State implementing agencies.

**Financial management and budgetary control:** Slow progress in implementation of various social and developmental programmes in the State left an overall saving of ₹11,930 crore. Excess expenditure of ₹4,691 crore pertaining to the period 1993-95, 1997-2007 and 2008-09 requires regularization under Article 205 of the Constitution of India. There were instances of inadequate or excessive provision of funds and unnecessary or excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year, leaving no scope for utilizing these funds for other developmental purposes. Detailed countersigned contingent bills were not submitted for large amounts of advances drawn on abstract contingent bills. There was un-reconciled expenditure of ₹3,040 crore, transfers of ₹398 crore to 8443-Civil Deposit and 800-Other Deposits and addition of ₹413 crore to the balances under 106-Personal Deposit Accounts. Moreover, ₹1,905 crore was lying in 773 Personal Deposit Accounts as on 31 March 2010. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute issuance of re-appropriation/ surrender orders should be avoided.

**Financial Reporting:** The State Government's compliance with various rules, procedures and directives was lacking in various Government departments. This was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were noticed in the submission of Annual Accounts by autonomous bodies and departmental undertakings. There were instances of losses and misappropriations for which departmental action was pending for long periods. Departmental inquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent such cases in future.