Executive Summary

Background

This Report on the Finances of the Government of Orissa is being brought out with a view to assess objectively the financial performance of the State during 2009-10 and to provide the State Government and State Legislature with timely inputs based on audit analysis of financial data. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government Fiscal Responsibilities and Budget Management (FRBM) Act, 2005 and in the Budget Estimates of 2009-10.

The Comptroller and Auditor General (C&AG) of India has been commenting upon the Government's finances for over four years since the FRBM legislation. Since these comments formed part of the civil audit report, it was felt that the audit findings on State finances remained relatively obscure in the large body of audit findings on compliance and performance audits. Accordingly, from the report year 2009 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances". This Report is the second in this endeavour.

The report

Based on the audited accounts of the State Government for the year ending March 2010, this report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed based on the FRBM Act and Fiscal Correction Path of the Government, budget documents, Twelfth Finance Commission (TFC) recommendations and other financial data obtained from various Government departments and organisations. The report is structured in three chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of Orissa Government's fiscal position as at 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 Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings. Appendix 4.1 at the end gives a glossary of selected terms related to State economy, as used in this report.

Audit findings and recommendations

Revenue Receipts*:** The Revenue receipts grew by only 7 *per cent* in 2009-10 over the previous year compared to 28 *per cent* in 2006-07 to 12 *per cent* in 2008-09. The low growth was due to marginal increase in central tax transfers and negligible increase in State's own non-tax revenue. The growth rate of the State's own revenue relative to GSDP was sluggish (0.524 *per cent*) during the current year due to overall slowdown in the economy which impacted State's own taxes and also the State's share of union taxes leading to decline in the fiscal position of the State. Government should mobilize additional resources through tax and non-tax revenue by expanding the tax base and rationalising the user charges, collection of arrears of revenue and cost recovery of maintenance expenditure of the irrigation projects as recommended by the TFC and realizing interest receipts on loans extended to the public sector undertakings ***(Paragraphs 1.3 and 1.6.5).

Revenue Expenditure*:** Revenue Expenditure (RE) has increased by 19 *per cent* over the previous year and constituted 87 *per cent* of the total expenditure during 2009-10 and Non-Plan Revenue Expenditure (NPRE) constituted 78 *per cent* of RE. The NPRE increased by 24 *per cent* over the previous year and exceeded the State Government's FCP assessment by 20 *per cent* and TFC's normative assessment of 27 *per cent* but it remained within the Budget Estimates (2009-10). The increase in NPRE was mainly due to increase (25 *per cent*) in committed expenditure under salary, pension, subsidies and interest payments. Expenditure on salaries at 42 *per cent* of RE net of interest payments and pension exceeded the TFC's projection of 35 *per cent* and there was rise in subsidy costs by 36 *per cent* during the year ***(Paragraphs 1.4.1 and 1.4.2).

Government may phase out implicit subsidies and resort to need-based borrowings to reduce interest payments and contain the growth of unproductive non-plan revenue expenditure. Government may also consider reduction in subsidy payments to PSUs etc. for boosting their operational efficiency.

Return to fiscal correction

Fiscal position of the State viewed in terms of trends in deficit indicators revealed deterioration in 2009-10 as revenue surplus and primary surplus declined and fiscal deficit increased over the previous year.

The significant gap between the growth rates of the revenue receipts (*7 per cent*) and revenue expenditure (19 *per cent*) over the previous year resulted in deterioration of revenue surplus to ₹ 1138 crore during

2009-10 from ₹ 3420 crore in 2008-09. The fiscal deficit increased from ₹ 334 crore in 2008-09 to ₹ 2226 crore in 2009-10 due to increase in revenue expenditure. Primary surplus declined from ₹ 2555 crore in 2008-09 to ₹ 778 crore in 2009-10. However, the fiscal deficit remained at 1.5 *per cent* of GSDP which was within the State's FRBM target.

Built upon early gains in achieving deficit targets, the government continued to consolidate the same in the current year (2009-10) despite an overall slump in the economy in the country as a whole and pressure on the committed expenditure due to implementation of the Sixth Pay Commission award and higher food subsidy costs due to introduction of rupees two a kilo of rice for the disadvantaged segment of the population. Given the robustness of the economy, the State can still achieve the FRBM targets with concerted efforts through better tax compliance, reductions in tax-collection costs, focusing on regaining revenue arrears ***(Paragraph 1.3.3)*** and by pruning unproductive expenditure.

Greater priority to capital expenditure: The Capital Expenditure (CE) decreased by 3.5 *per cent* over the previous year. The CE was 2.42 *per cent* of GSDP as against TFC's projection of 3.1 *per cent* for 2009-10 and 2.65 *per cent* under Medium Term Fiscal Plan (MTFP). Government may consider strengthening the State infrastructure for intake of higher capital expenditure and re-prioritise its outlays for asset formation and sustainable development of the State as per their Fiscal Policy Strategy Statement for 2009-10 and in view of lower achievement of target set by TFC and MTFP for 2009-10

Review of Government investments: The average return on Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was 8.98 *per cent* in the last five years while Government paid interest at an average rate of 8.26 *per cent* on its borrowings during 2005-10 ***(Paragraph 1.6.3)***. No interest was received during 2009-10 from the Public Sector Undertakings and co-operatives etc on the outstanding loans of ₹ 3377 crore advanced to them is a matter of concern ***(Paragraph 1.6.5)***. It would be advisable for the State Government to ensure better value for money in investments otherwise high cost borrowed funds invested in projects with low financial return will continue to strain the State economy. It would also be prudent to review the working of state public sector undertakings which are incurring huge losses and work out either a revival strategy (for those which can be made viable) or close them down (if they are not likely to be viable given the current market conditions). The Thirteenth Finance Commission also recommended that the State Government draw up a road map for closure of non working public sector undertakings (PSUs) by March 2011.

Prudent cash management: The State had a huge surplus cash balance and investing the same in Government of India (GoI) Treasury Bills with Reserve Bank of India with low interest rates ***(Paragraph 1.6.6)***. One option for prudent cash management would be to maintain optimum cash balances (minimum: ₹ 1.28 crore) with RBI by advance planning and use the surpluses to settle some of the high cost debt.

Debt sustainability: Currently the State Government is not facing any debt crisis because the fiscal deficit is in a manageable position of 1.5 *per cent* of GSDP and most of the indicators of debt sustainability are positive ***(Paragraph 1.8)***. However, the resource gap is negative showing that there is mismatch between incremental non-debt receipts and incremental expenditure. If this resource gap widens in the coming years, then there may be a cause for concern for corrective action. Another concern is that fresh borrowings seem to be used towards debt repayment and not for capital asset formation. Hence repayment of these borrowings in future years would not be met from funds generated through assets.

Oversight of funds transferred directly from the GoI to the State implementing agencies: GoI directly transferred substantial amount of grant-in-aid to the State Implementing Agencies for implementation of different schemes, which is fraught with the risk of poor oversight. Unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. 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) ***(Paragraph 1.2.2)***.

Financial Management and Budgetary Control

During 2009-10, there was overall savings of ₹ 7000.46 crore as a result of savings of ₹ 7000.63 crore offset by excess of ₹ 0.17 crore in two grants under Revenue Section and one grant under Capital Section which needs regularization under Article 205 of the Constitution of India ***(Paragraph 2.2 and 2.3.7).*** The savings were mainly due to slow programme implementation. There were instances of savings exceeding ₹ 10 crore in 16 grants which included huge savings of ₹ 3004.64 crore in ten cases under nine grants ***(Paragraph 2.3.1).*** There were persistent savings up to 47 *per cent* in 10 grants during 2005-10 ***(Paragraph 2.3.2)***. There were also instances of excess expenditure and expenditure without provision of funds, unnecessary/excessive/inadequate supplementary provision, substantial surrenders, non surrender of anticipated savings and rush of expenditure during the current year. Instances of rush of expenditure during the last month of the financial year and non-recoupment of advances from the Contingency Fund persisted despite the same being pointed out in earlier Audit Reports ***(Paragraphs 2.3.14 and 2.4)***. Besides, huge amounts drawn for specific purposes were lying unspent by transfer credit to 8443-Civil Deposits-800 Other Deposits ***(Paragraph 2.3.5)***.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issue of re-appropriation / surrender statement should be avoided.

Financial reporting

State Government's compliance with various rules procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against the grants from various grantee institutions ***(Paragraph 3.1)***. Delays were also noticed in submission of annual accounts by some departmental undertakings ***(Paragraph 3.4)***. There were instances of misappropriation, losses and defalcations which were pending for settlement ***(Paragraph 3.5)***. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent occurrence of such cases in future.

The Controlling Officers did not submit the Detailed Contingent Bills against the advances drawn on Abstract Contingent Bills upto 31 March 2010 ***(Paragraph 3.6)***. Non reconciliation of expenditure figures persisted with some of the departments of the Government despite the same being regularly pointed out in the Audit Reports of C&AG ***(Paragraph 3.7).*** Large amount of unspent balance were lying in 1,609 Personal Deposit (PD) Accounts and were not credited back to Government Account ***(Paragraph 3.8)***.

A rigorous monitoring mechanism should be put in place by the DDOs to adjust the abstract contingent bills in time and maintain the PD Accounts as required under the extant rules.