

## EXECUTIVE SUMMARY

### Background

The Government of Himachal Pradesh enacted the Fiscal Responsibility and Budget Management (FRBM) Act in April 2005 which was further amended by Act No. 25 of 2011 to ensure prudence in fiscal management and fiscal stability by progressive reduction in revenue deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework.

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 five years since the FRBM legislation and have published five 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 has decided to bring out a separate volume titled “Report on State Finances.” This is the third edition of this endeavour.

### The Report

Based on the audited accounts of the Government of Himachal Pradesh for the year ending March 2011, 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 2011. 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 three out of eight targets as set out in FRBM Act/ThFC during 2010-11. There is reasonable prospect of returning back to fiscal correction path if efforts are made to increase tax compliance, reduce tax administration costs, collection of revenue arrears and prune unproductive expenditure so that deficit is curtailed.

*Efforts should 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 ₹1352 crore to the State Implementing Agencies thereby increasing the total availability of State resources from ₹24,348 crore to ₹25,700 crore. There was, however, no single agency to monitor the receipt/transfer of funds directly by GoI and therefore, utilisation of these funds remains to be verified by Audit to establish accountability of the State Government for these funds.

*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 Accountant General (Accounts and Entitlement) to ensure its effective utilisation.*

**Greater priority not given to capital expenditure:** The increasing trend in capital expenditure is indicative of improvement in social as well as economic services. Although there is a marginal increase in investments, the capital expenditure had in fact decreased by ₹154 crore during 2010-11.

*A monitoring mechanism 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 channelised there.*

**Initiative for fiscal correction:** The FRBM Act recommended a target to contain the consolidated debt (including guarantees) within 49.70 *per cent* of GSDP by 2010-11, which the State has not been able to achieve as per recommendations and its consolidated debt as on 31 March 2011 stood at 58 *per cent* of the GSDP.

*The State Government, therefore, needs to gear up its activities so that atleast the target set out by the FRBM Act can be achieved.*

**Financial Management and budgetary control:** Excess of expenditure of ₹2237.64 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, faces the risk of misuse of funds and therefore, needs to be avoided.

*Expenditure should be planned and incurred uniformly throughout the year to avoid rush of expenditure at the fag end. Budgetary controls should be strictly observed to avoid such deficiencies in financial management.*

**Monitoring mechanism needs to be strengthened:** The Abstract Contingent (AC) Bills amounting to ₹81.30 crore had not been adjusted for long periods of time which is fraught with the risk of misappropriation.

*Adjustment of AC bills should be monitored closely for which monitoring mechanism needs to be evolved.*

**Financial reporting:** There were delays in furnishing utilization certificates amounting to ₹907.68 crore in 9,547 cases for periods ranging upto nine 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 needs to be put in place to ensure speedy settlement of cases relating to misappropriations and losses.*