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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 realised 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.

Though, the Comptroller and Auditor General (C&AG) has been commenting upon the State's Finances, the comments formed part of the civil audit report and remained camouflaged in the large body of audit findings on compliance and performance audits. In recognition of the need to bring State finances centre-stage, a stand-alone report on State Government finances was considered appropriate. Accordingly from the report year 2008-09 onwards, the C&AG decided to bring out a separate volume titled "Report on State Finances".

### The Report

Based on the audited accounts of the Government of Madhya Pradesh for the year ended March 2011, this report provides an analytical review of the Annual Accounts of the State Government. The findings in the report are subject to limitation due to non-receipt of complete information relating to Personal Deposit accounts, maturity profile of debts and arrears of revenue as discussed in relevant paragraphs. 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 2011. It provides an insight into the trends of committed expenditure and borrowing patterns, besides giving a brief account of Central funds transferred directly to the 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/organisations in support of the findings.

## Audit findings and recommendations

### Management of Fiscal imbalances and resource mobilization

- The State continued to maintain revenue surplus during 2006-11 and kept fiscal deficit relative to GSDP below the limit laid down under FRBM, Act and as recommended by the 13<sup>th</sup> Finance Commission. The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit/surplus indicated a positive trend in 2010-11 as revenue surplus increased substantially and fiscal deficit and primary deficit decreased relative to the previous year. The revenue surplus as a percentage of GSDP increased from 2.42 *per cent* in 2009-10 to 2.52 *per cent* in 2010-11, which was more than 0.79 *per cent* as envisaged in the BE. The fiscal deficit relative to GSDP decreased from 2.73 *per cent* in 2009-10 to 1.94 *per cent* in the current year, thus remaining within four *per cent* ceiling prescribed both in the BE and the norm recommended under the FRBM Act 2005, and also within three *per cent* norm prescribed by 13<sup>th</sup> Finance Commission.
- The Compound Annual Growth Rate (CAGR) of Non-Tax Revenue receipts in Madhya Pradesh during the last decade was higher in comparison to that in General Category States.

### Arrears of Revenue

- Arrears of revenue (**Table 1.7**) as on 31 March 2011 in respect of seven departments amounted to ₹ 877 crore, of which ₹ 685 crore was outstanding for more than five years. It excluded arrears of revenue in respect of Taxes on Vehicles as the same was not furnished by the concerned department (September 2011).

### Management of liabilities

- The ratio of total liabilities to GSDP was within the limit of 40 *per cent* fixed under the FRBM Act, 2005. These have to be reduced to 25 *per cent* by the end of 2014-15 as per recommendations of 13<sup>th</sup> Finance Commission. Consequently, prudent debt management has to be ensured to keep the growth of liabilities in check to achieve the targets of 13<sup>th</sup> Finance Commission.
- Debt repayments will steadily increase from nine *per cent* during 2012-14 to 22 *per cent* during 2018-20. In the absence of the sinking fund for amortisation of debt and non-availability of maturity profile of 15 *per cent* of debt, it is critical to have clarity on debt repayment schedule.

### **Net availability of funds**

- During the current year, repayment of internal debt, GOI loans and other obligations and interest thereon constituted 87 *per cent* of fresh debts, leaving very less funds for asset creation.

### **Return on investments**

- The return on investment of ₹ 12,216 crore made by the Government ending March 2011 in Statutory corporations, Government companies, Co-operative societies, etc. was a mere 0.26 *per cent* against its average borrowing interest rate of 7.04 *per cent* during the current year.

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

- The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure continued to be a dominant proportion of the total expenditure at 78 *per cent* during 2010-11, leaving less resource for expansion of services and creation of assets. Moreover, within the revenue expenditure of ₹ 45,012 crore, NPRE of ₹ 32,101 crore in 2010-11 remained significantly higher than the normatively assessed level of 13<sup>th</sup> Finance Commission (₹ 25,074 crore) for the year. Further, salary and wages expenditure, pension payments, interest payments and subsidies constituted about 74 *per cent* of the NPRE during the year.
- The priority given to Social Sector Expenditure (SSE) and expenditure on Education Sector and Health Sector in Madhya Pradesh, was not adequate in both the years 2007-08 and 2010-11 as their ratios to Aggregate Expenditure (AE) were lower than the General Category States' Average. The share of capital expenditure to total expenditure on social and economic services also registered a fall during the current year. Under the social sector greater fiscal priority may be given to Education and Health by the Government.
- Fall in revenue expenditure on Salaries and Wages and Operation and Maintenance under Social and Economic services during the current year over the previous year indicating decline in the quality of services.

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

The Central Government transferred ₹ 9,002.13 crore during 2010-11 directly to State implementing agencies<sup>1</sup> for implementation of various schemes/programmes. Direct transfer from the Union to the State implementing agencies runs the risk of poor oversight of utilisation of funds by these agencies. Unless uniform

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<sup>1</sup> *State implementing agencies include any organizations/institutions including non-governmental organizations which are authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the State, e.g. State implementation society for Sarva Shiksha Abhiyan, State Health Mission for National Rural Health Mission etc.*

accounting practices are diligently 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.

**Financial management and budgetary control:** Against the total provision of ₹ 73,437 crore during 2010-11, an expenditure of ₹ 61,228 crore was incurred leaving an overall saving of ₹ 12,209 crore. Major savings were in respect of Finance, Housing and Environment, Minor Irrigation, Higher Education, Law and Legislative Affairs departments, etc. In the case of five grants/appropriations, persistent savings were observed in the last five years. There were instances of unnecessary, inadequate or excessive provision of funds and unnecessary or excessive re-appropriations/surrenders. In many cases, the anticipated savings were either not surrendered or surrendered on the last day of the financial year, leaving no scope for utilizing these funds for other developmental purposes. A sum of ₹ 1,058 crore was transferred to Civil Deposit in Public Account and ₹ 3,648 crore were surrendered on the last day of the financial year. Budgetary controls should be strictly observed to avoid such deficiencies in financial management.

Excess expenditure of ₹ 12.62 crore incurred during 2010-11 and ₹ 4,815.41 crore relating to the period 1993-94 to 2009-2010 required regularisation under Article 205 of the Constitution.

**Financial Reporting:** The State Government's compliance with various rules, procedures and directives was lacking in various Government departments. Utilisation certificates in respect of grants for an aggregate amount of ₹16,286.97 crore were awaited from grant sanctioning authorities. There was delay of 12 to 24 months and above, in submission of accounts by 47 autonomous bodies affecting their transparency and accountability. The Government's compliance towards disposal of cases of losses, misappropriations, etc. amounting to ₹ 46.21 crore was deficient. Detailed Contingent bills for an amount of ₹ 21.43 crore against Abstract Contingent bills for the period 1996 to 2011 were awaited. ₹ 2,063 crore were retained in 812 Personal Deposit accounts as at the end of March 2011 in violation of the provisions of Madhya Pradesh Treasury Code. Non-reconciliation of expenditure amounting to ₹ 808 crore for 2010-11 in respect of Controlling Officers of ten departments and 66 *per cent* of the total non-debt receipt of ₹ 52,257 crore was also noticed. All these deficiencies reflected lack of internal controls in the departments and ineffective governance by the Government.