

# EXECUTIVE SUMMARY

Based on the audited accounts of the Government of Uttar Pradesh for the year ending March 2011, 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 its II<sup>nd</sup> Amendment Act, 2011, Budget Documents, Economic Review 2010-11, Thirteenth Finance Commission Report and other financial data obtained from various Government departments and organisations. The report is structured in three Chapters.

**Chapter I** is based on the audit of Finance Accounts and makes an assessment of Uttar 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 II** 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 III** is an inventory of Uttar Pradesh 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* at the end gives a glossary of selected items related to State economy, as used in this report.

## Audit findings and recommendations

**Revenue receipts:** The revenue receipts increased by 15 *per cent* during 2010-11 over the preceding year mainly due to 21 *per cent* increase in tax revenue and 37 *per cent* increase in share of union taxes. Revenue receipts ₹ 1,11,184 crore were very close to the target set under the Mid Term Fiscal Restructuring Policy (MTFRP) for 2010-11 (₹ 1,11,621 crore). Tax revenue which is a major constituent of the revenue receipts was below the target of MTFRP by ₹ 1,196 crore while it was above the projection made by Thirteenth Finance Commission by ₹ 3,806 crore. Similarly non tax revenue was also below the target of MTFRP by ₹ 3,809 crore but was above the normative assessment made by the Thirteenth Finance Commission by ₹ 3,577 crore.

**Revenue expenditure:** During 2010-11, the revenue expenditure increased by 20 *per cent* (₹ 18,302 crore) relative to 2009-10. Within revenue expenditure, plan expenditure increased by ₹ 5,338 crore (34 *per cent*) over the previous year and the non-plan expenditure increased by ₹ 12,964 crore (18 *per cent*). The increases under plan expenditure show growth of infrastructure and services network of the State. The revenue expenditure as a *percentage* of total expenditure increased from 77 *per cent* to 83 *per cent* in the current year. The committed expenditure on salaries, pension, interest payments and subsidies constituted 82 *per cent* of the non-plan revenue expenditure during 2010-11.

**Priority to economic and social sector expenditure:** The fiscal priority given to development, social and education sectors was not adequate in 2010-11 as their ratio to aggregate expenditure was less than the General Category States Average except education which was marginally higher.

*In view of the literacy rate in the State being much below the All India Average and the infant mortality being higher than the All India Average, the Government may consider re-prioritising its public expenditure by giving priority to the Social Sector.*

**Resource mobilisation:** There had been increasing trend in generation of State's own revenues all along the period 2006-11. Tax revenue/Gross State Domestic Product ratio remained constant around seven *per cent* and non-tax revenue-GSDP ratio substantially decreased from 2.77 *per cent* in 2009-10 to 1.90 *per cent* in 2010-11. The sharp decrease in non-tax revenue-GSDP ratio during 2010-11 was mainly due to decrease under miscellaneous general services.

**Review of Government investments:** The average return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operatives was 0.033 *per cent* during the last three years, whereas its average interest outgo on its borrowings was 6.67 *per cent* during the corresponding period. This is clearly an unsustainable proposition. The State Government should therefore, seek better value for money in investments. *The working of State-owned public sector undertakings, incurring huge losses may be reviewed and appropriate decision for their closure or otherwise may be taken depending on their strategic value and revival potential.*

**Debt sustainability:** The debt-GSDP ratio at 38 *per cent* at the end of 2010-11 was on lower side especially in view of the target of FRBM (second amendment) Act 2011 to contain it to 42 *per cent* by the end of 2014-15. Nearly 92 *per cent* of borrowed funds were used for discharging debt liabilities in last three years. The Government was maintaining a sinking fund but the balances under the head '6003 Internal Debt of the State Government' may not be sufficient for amortisation of loans.

**Revenue surplus:** The fiscal position of the State has shown improvement in 2010-11 relative to previous year. Though the revenue surplus reduced by ₹ 3,539 crore but fiscal deficit has reduced to 2.93 *per cent* of GSDP during the year 2010-11 due to low capital expenditure over the previous year. Despite this, there is scope of improving it by making efforts of recovery of cost of maintenance of the irrigation projects, timely completion of projects of Irrigation and Public Works departments and making these a source of revenue.

**Oversight of funds transferred directly from the Government of India to the State implementing agencies:** Government of India directly transferred substantial amount of funds to the State Implementing Agencies, which is fraught with the risk of their improper utilization by these agencies. There is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes. *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.*

**Financial management and budgetary control:** During 2010-11, an overall savings of ₹ 23,932.15 crore over the total grants and appropriation is indicative of inaccurate budgeting. The department of Planning, Women and Child Welfare, Finance (Debt Services and Other Expenditure) posted large savings persistently for the last five years. Excess expenditure of ₹ 11,771.48 crore for the period 2005-11 requires regularisation under Article 205 of the Constitution of India. There were also instances of unnecessary/inadequate supplementary provision and excessive, unnecessary re-appropriations of funds. Cases of non-surrender of anticipated savings were also noticed. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management.

**Financial reporting:** The Government's compliance with various financial rules and procedures was deficient. *Utilisation Certificates* in respect of huge amounts were not obtained from the grantees. A large number of cases of misappropriations, etc., were pending either for recovery or write off. A huge amount was retained in the Personal Deposits against the principle of legislative financial control. Substantial portion of the expenditure was not classified programme/activity-wise. The amount of interest credited to the individual GPF accounts of the Class IV employees was not intimated by the Government for adjustment in accounts. Detailed Countersigned Contingency bills against Abstract Contingency bills were awaited since long.