

## EXECUTIVE SUMMARY

### Background

The Report on the Finances of the Government of Madhya Pradesh is brought out with a view to assess the financial performance of the State during 2011-12 based on audit analysis of financial data. In order to give a perspective to the analysis, we have attempted to compare the achievements made by the State Government *vis-à-vis* the targets envisaged in the Fiscal Responsibility and Budget Management Act (FRBM Act), 2005, Budget Documents, norms recommended by the Thirteenth Finance Commission and other financial data obtained from various Government Departments and organisations.

### The Report

Based on the audited accounts of the Government of Madhya Pradesh for the year ended March 2012, 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 makes an assessment of the Madhya Pradesh Government's fiscal position as on 31 March 2012. It provides an insight into the trends in the overall finances of the State, Actual Expenditure *vis-à-vis* Budget Estimates, Salaries and Wages, Pensions, Interest Payments and Subsidies, Expenditure and Borrowing patterns, besides giving a brief account of Central funds transferred directly to the State implementing agencies through the off-budget route. It also makes an assessment of the adequacy of the State's Fiscal priorities to Developmental, Social Sectors and Capital Expenditure.

**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. Besides, comments arising out of review of two grants i.e. Grant No. 10 and 53 pertaining to Forest and Urban Administration and Development Department respectively have also been made in this Chapter.

**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. At the end of the Report a glossary of abbreviations is given.

### Audit findings

#### Management of Fiscal imbalances and resource mobilisation

- Revenue Surplus, Fiscal Deficit and Primary Deficit showed improvement with reference to the Budget Estimates (BEs).
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- The State continued to maintain Revenue Surplus during the year 2011-12. The Revenue Surplus as a percentage of Gross State Domestic Product (GSDP) increased from 2.63 *per cent* in 2010-11 to 3.14 *per cent* in 2011-12, which was more than the BE of 1.45 *per cent*.
- The Fiscal Deficit relative to GSDP decreased from 2.02 *per cent* in 2010-11 to 1.83 *per cent* in the current year, thus remaining within the three *per cent* ceiling prescribed in the BE and the norm recommended under the FRBM Act, 2005.
- In 2011-12, Revenue Receipts as a ratio of Total Expenditure stood at 81 *per cent*. The decreasing trend of the Fiscal Liabilities to Revenue Receipts ratio during the period 2007-12 indicated increasing reliance on Revenue Receipts to finance the Total Expenditure and decreasing dependence on borrowed funds.
- Actual realisation under Tax Revenue and Non-Tax Revenue was higher than the assessment made by the Thirteenth Finance Commission (36.81 and 52.37 *per cent*) and Medium Term Fiscal Policy Statement (MTFPS) projections (16.68 and 24.74 *per cent*).

#### **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 68 *per cent* during 2011-12. Revenue Expenditure increased by 17 *per cent* (Non Plan: 14 *per cent* and Plan: 24 *per cent*) while Capital Expenditure increased by three *per cent*.
- The actual Non Plan Revenue Expenditure (NPRE) at ₹ 36,677 crore in 2011-12 was more than the normatively assessed level of the Thirteenth Finance Commission (36.06 *per cent*) but less than the projection made by the State Government in its MTFPS (four *per cent*).
- The overall expenditure on Salaries and Wages, Pensions, Interest Payments and Subsidies increased by 101 *per cent* during the period 2007-12. This expenditure during 2011-12 constituted 73 *per cent* of the NPRE.
- Operation and Maintenance (O&M) expenses on Water Supply, Sanitation, Housing and Urban Development and Transport sectors were more than the non-tax revenue in these sectors. The State Government should increase the Non-Tax Revenue Receipts and curtail the O&M expenses in respect of these sectors.
- In terms of Plan and Non-Plan Expenditure, the Plan Expenditure increased by ₹ 3,592 crore and Non-Plan Expenditure registered a growth of ₹ 16,390 crore over the previous 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 2008-09 and 2011-12 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.
- It was observed that there was decrease in the proportion of Capital Expenditure on Social and Economic services to Total Expenditure during the current year over the previous year.
- Financial assistance to Local Bodies and other institutions increased by ₹ 1,713.24 crore from ₹ 9,117.06 crore in 2010-11 to ₹ 10,830.30 crore in 2011-12. The increase was mainly on account of financial assistance to Educational Institutions and Panchayati Raj Institutions (PRIs).
- State Government did not devolve funds amounting to ₹ 49.55 crore and ₹ 195.28 crore to Urban Local Bodies (ULBs) and PRIs as compared to the recommendations of the Third State Finance Commission.

### **Incomplete projects**

- An expenditure of ₹ 9,128.68 crore (March 2012) remained unfruitful on 28 incomplete projects and also the initial budgeted cost of 23 projects was revised by the Government involving a cost overrun of ₹ 9,390.04 crore.

### **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 the Thirteenth Finance Commission. Consequently, prudent debt management has to be ensured to keep the growth of liabilities in check to achieve the targets of the Thirteenth Finance Commission.
- Public Debt Receipts decreased by nine *per cent* showing improvement in the State's Debt management. The decrease in Public Debt Receipts was due to decrease in borrowings. Repayment of Public Debt increased by 25 *per cent*.
- During the year 2011-12, internal debt redemption was 106 *per cent* of fresh debt receipts, redemption of GOI loans was 126 *per cent* while in case of other obligations, repayments were 88 *per cent* of fresh receipts. These trends indicated that the debt receipts were mainly utilised for repayment of debt.

- Debt repayments will steadily increase from 10 *per cent* during 2013-15 to 21 *per cent* during 2019-21. It would be prudent to create a Sinking Fund for amortisation of debt.
- In 2011-12, market borrowings by the State Government continued to finance a major portion of Fiscal Deficit though its share in financing Fiscal Deficit decreased from 62 *per cent* in 2010-11 to 55 *per cent* in 2011-12.

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

- During the year 2011-12, repayment of internal debt, GOI loans and other obligations and interest thereon constituted 95 *per cent* of fresh debts, leaving very less funds for asset creation.
- Loans advanced to various State Government institutions were higher than the recovery of loans and advances resulting in an increase in outstanding loans and advances.
- No Ways and Means Advance (Normal/Special) was taken by the State during the years 2010-11 and 2011-12.

#### **Return on investments**

- The return (₹ 37.98 crore) on investment of ₹ 13,184 crore made by the Government ending March 2012 in Statutory corporations, Government companies, Co-operative societies, etc. was a mere 0.29 *per cent* against its average borrowing cost of 6.74 *per cent* during 2011-12.
- Twenty Six Government Companies and Statutory Corporations with an aggregate investment of ₹ 11,495.42 crore for the latest year for which accounts were finalised as of 2011-12 were running in losses which accumulated to ₹ 15,931.72 crore.

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

- The Central Government transferred ₹ 9,497.91 crore during 2011-12 directly to State Implementing Agencies for implementation of various schemes/programmes. As these are not routed through the State Budget, there is a risk of poor oversight of utilisation of funds by these agencies. Unless uniform 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 ₹ 96,187 crore during 2011-12, an expenditure of ₹ 81,134 crore was incurred leaving an overall saving of ₹ 15,053 crore.
- Major savings were in respect of Finance, Land Revenue, Planning, Economic and Statistic, Water Resources, School Education (Excluding Primary Education), Bundelkhand Package and Law and Legislative Affairs Departments etc.
- In the case of seven 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 utilising these funds for other developmental purposes.
- Excess expenditure of ₹ 135.10 crore incurred during 2011-12 and ₹ 2,879.84 crore relating to the period 1997-98 to 2000-2001 and 2002-03 to 2006-07 and 2008-09 to 2010-11 required regularisation under Article 205 of the Constitution.
- Some of the assurances given in the Budget Speech were not fulfilled.
- A sum of ₹ 584.33 crore was transferred to Civil Deposit in Public Account.
- Savings of ₹ 4,872 crore were surrendered on the last day of the financial year.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management.

### **Financial Reporting**

The State Government's compliance with various Financial Rules, procedures and directives was deficient.

- Utilisation certificates in respect of Grants for an aggregate amount of ₹ 31,417.72 crore were awaited from the Grant sanctioning authorities.
- There was delay of nine to 84 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, misappropriation, etc. amounting to ₹ 46.25 crore was pending.
- Detailed Contingent bills for an amount of ₹ 19.50 crore against Abstract Contingent bills for the end of 31 March 2012 were awaited including ₹ 19.10 crore for the period prior to 2010-11.
- ₹ 2,007 crore were retained in 886 Personal Deposit accounts as at the end of March 2012 in violation of the provisions of Madhya Pradesh Treasury Code.
- Non-reconciliation of expenditure amounting to ₹ 2,808 crore for 2011-12 in respect of Controlling Officers of five departments and 98.56 *per cent* of the total non-debt receipt of ₹ 71,753 crore was also noticed.
- Non-utilisation and parking of funds relating to Thirteenth Finance Commission in Civil Deposit was noticed in some of the Departments.

All these deficiencies reflected lack of internal controls in the Departments.