Executive Summary

Background

This Report on the Finances of the Government of Odisha is being brought out with a view to assess objectively the financial performance of the State during 2011-12 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 in the Fiscal Responsibilities and Budget Management (FRBM) Amendment Act 2011 under Mid Term Fiscal Plan (MTFP), and in the Budget Estimates of 2011-12, and norms recommended by the Thirteenth Finance Commission (ThFC).

The Report

Based on the audited accounts of the State Government for the year ending March 2012, 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, budget documents, ThFC 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 Odisha Government's fiscal position as of 31 March 2012. 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 and resources generated through public private partnership mode.

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. Besides, comments arising out of audit of budgetary process and budget assumptions and outcome of inspection of treasuries have also been made in chapter-2.

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

Amendment to the State FRBM Act: In accordance with the ThFC recommendations the State Government amended (February 2012) the FRBM Act incorporating therein the continuation of the already achieved zero revenue deficit, setting a target of three *per cent* of fiscal deficit and review of compliance to provisions of FRBM Act through an independent agency as required by the ThFC.

However, disclosures like projection of Revenue Consequences of Capital Expenditure (RCCE) in the MTFP, public-private partnerships (PPPs) and related liabilities and bringing out statements on physical and financial assets and vacant public land and building were not included as recommended by ThFC to be featured under MTFP. Besides, system of reviewing the compliances to the provisions of the FRBM Act was not put in place even after two years of ThFC recommendations came into force.

Oversight over funds transferred directly from the GoI to the State implementing agencies: GoI directly transferred substantial amount of grants-in-aid to the State Implementing Agencies for implementation of different schemes. Funds flowing directly to the implementing agencies through off-budget route inhibit FRBM Act requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amounts spent in any particular year on major flagship and other important schemes. 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. The State Government has to put in place an appropriate mechanism to ensure proper accounting and utilisation of the funds directly transferred by Government of India (GoI) to the implementing agencies.

***Revenue Receipts*:** The Revenue receipts (₹ 40267 crore) grew by 21 *per cent* in 2011-12 over the previous year. The increase was mainly contributed by own revenue, State's share of union taxes and duties and grants-in-aid receipts from GoI. However, the annual growth rate has come down sharply to 7.40 *per cent* in 2009-10 to recover at 21 *per cent* in 2011-12. Government may mobilise additional tax resources through Tax and Non-Tax Revenue by expanding the tax base and rationalising the user charges.

***Revenue Expenditure*:** Revenue Expenditure (RE) which constituted 87 *per cent* of the total expenditure during 2011-12, increased by 18 *per cent* over the previous year. Non-Plan Revenue Expenditure (NPRE) constituted 72 *per cent* of RE. The NPRE (₹ 24940 crore) increased by 13 *per cent* over the previous year and exceeded the ThFC's normative assessment (₹ 19131 crore) by ₹ 5809 crore. The increase in NPRE during the current year was mainly on Irrigation and Flood control (₹ 150 crore), Social Welfare and Nutrition (₹ 1114 crore), Transport (₹ 132 crore) and Rural Development (₹ 282 crore). Food subsidies at ₹ 979 crore exceeded the normative projection of the ThFC of ₹ 84 crore largely due to implementation of the rupee two per kilogram of rice scheme introduced during 2008-09 which continued through 2011-12. The ThFC recommended phasing out of subsidies. Government may resort to need-based borrowings to reduce interest payments and contain the growth of un-productive non-plan revenue expenditure.

Return to fiscal correction

Fiscal position of the State viewed in terms of trends in deficit/surplus indicators revealed that in 2011-12, while revenue surplus and primary surplus increased, fiscal deficit of previous year turned into fiscal surplus pointing towards the continuing effort of the State Government towards a path of fiscal correction and consolidation. The fiscal deficit of ₹ 658 crore in 2010-11 turned into fiscal surplus of ₹ 622 crore during 2011-12 due to the support of huge surplus available in revenue account which is a welcome development. The significant gap between the growth rates of the revenue receipts (21 *per cent*) and revenue expenditure (18 *per cent*) over the previous year resulted in increase of revenue surplus to ₹ 5607 crore during 2011-12 from ₹ 3908 crore in 2010-11. Primary surplus increased from ₹ 2403 crore in 2010-11 to ₹ 3198 crore in 2011-12. However, there was an aberration as the revenue surplus was overstated by ₹ 907 crore due to misclassification of expenditure under the revenue section.

Built upon early gains in achieving deficit targets, the Government continued to consolidate the same in the current year (2011-12) despite pressure on the committed expenditure due to implementation of the Sixth Pay Commission award and higher food subsidy costs due to continuation of the scheme of providing rupees two a kilogram of rice for the disadvantaged segment of the population. Given the robustness of the economy, the State can still achieve the remaining targets/norms of the ThFC's recommendations with concerted efforts through better tax compliance and phasing out non-merit implicit and explicit subsidies.

Greater priority to capital expenditure: The Capital Expenditure (CE) increased marginally by five *per cent* over the previous year. The CE was 1.99 *per cent* of GSDP as against State Government's projection of 2.50 *per cent* for 2011-12 and less than the budget estimates. Government may consider strengthening the physical and operational infrastructure for absorption of higher capital expenditure and re-prioritise their outlays for asset formation and sustainable development of the State in view of lower achievement of target set under MTFP for 2011-12.

Review of Government investments: There was investment of ₹ 2908.07 crore during 2011-12 with a return of ₹ 286.23 crore which was 9.84 *per cent* of the investment. The investment of State Government at the end of 2011-12 included ₹ 2556.62 crore in 83 Public Sector Undertakings (PSU) comprising 80 Government Companies (₹ 2064.16 crore) and three Statutory Corporations (₹ 492.46 crore). Out of this, only one Corporation (Odisha Mining Corporation) contributed ₹ 285 crore which constituted 99.5 *per cent* of the total return received during the year. The State Government did not receive any return from 108 concerns[1] which account for 84 *per cent* of total equity holding (₹ 2429 crore) of the State Government. Outstanding loans as of March 2012 was ₹ 3903 crore. Difference between interest payment and interest receipts was negative which meant that the State's borrowings were more expensive than the loans advanced by the Government. It would be advisable for the State Government to ensure better value for money in its investments, otherwise high cost borrowed funds invested in projects with low financial return will continue to strain the State economy in the long-run.

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 in that particular sector). 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 2012 which is yet to be done.

Prudent cash management: The State had a huge surplus cash balance, but invested the same in Government of India (GoI) Treasury Bills with Reserve Bank of India at low interest rates. 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 retire or pre-pay some of the high cost debts. The ThFC also recommended the Governments to make efforts towards utilising their cash balances before resorting to fresh borrowings. The State Government should continue to pursue with GoI to allow pre-payment of high cost debt before incurring fresh debt.

Debt sustainability: Currently the State Government is not facing any debt crisis because there was fiscal surplus of 0.27 *per cent* of GSDP, which is well within the ThFC projections of fiscal deficit of three *per cent* and most of the indicators of debt sustainability are also positive. The trends in debt sustainability revealed that the incremental non-debt receipts of the State had been able to meet the incremental interest liabilities and incremental primary expenditure during the period 2009-12, which is a very positive sign.

Public-Private Partnerships: Government has framed public-private-partnership (PPP) policy in 19 sectors of the economy to generate maximum resources for infrastructure build up during 2007-12; however, the resources generated during 2007-12 were negligible as most of these projects did not take off. Only eight out of 70 projects had been completed.. Delay in completion of PPP projects ranging from one to three years affected the flow of intended benefits to the public through the utilities such as communication, transportation, housing and tourism etc. as well as generation of resources.

Effective actions have to be taken to gear up PPP activities from the experience gained from Eleventh Plan period. Also there is a need to appropriately disclose the quantum of resources planned to be generated through PPP route in the budget and the Finance Accounts every year and its proposed application.

[1] Statutory Corporations: 1, Government companies: 77 and Co-operative Societies: 30)

Financial Management and Budgetary Control

During 2011-12, there was overall saving of ₹ 7258.40 crore. Gross savings of ₹ 7410.17 crore was offset by excess expenditure of ₹ 151.77 crore in one grant under revenue section and one grant under Capital section and one appropriation. The above excess needs regularisation under Article 205 of the Constitution of India. The savings were mainly due to slow programme implementation and largely contributed to surpluses on the revenue account.

There were instances of savings exceeding ₹ 10 crore in 16 cases relating to 14 grants and one appropriation. This included huge savings of ₹ 3049.51 crore in 10 cases under eight grants and one appropriation exceeding ₹ 100 crore in each case. There were instances of persistent savings, excess expenditure and expenditure without provision of funds, unnecessary/excessive supplementary provision, substantial surrenders, non-surrender of anticipated savings during the current year and instances of rush of expenditure during the last month of the financial year. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issue of re-appropriation / surrender statements should be avoided.

Non-recoupment of advances from the Contingency Fund persisted despite the same being pointed out in earlier Audit Reports. The Constitutional provisions should be observed for recoupment of advances from the Contingency Fund.

Payment of grants-in-aid constitutes revenue expenditure. During the year grants-in-aid of ₹ 763.22 crore were found debited to Capital heads of accounts leading to overstatement of capital expenditure and understatement of revenue expenditure. Proper classification of Government transactions need to be adhered to as per rules.

A good number of treasuries are not rendering Central Civil Pension / Central Political Pension vouchers to concerned accounting circles for reimbursement due to which a claim of ₹ 5.59 crore remained in suspense head as of March 2012.

Financial reporting

State Government's compliance with various rules, procedures and directives relating to utilisation of funds was unsatisfactory as evident from delays in furnishing utilisation certificates (UCs) against the grants from various grantee institutions and issue of inaccurate UCs. This was mainly due to non adherence to the existing instructions for watching timely receipt of UCs.

Information on financial assistance given to various institutions / authorities by different departments of the State Government have not been furnished to the Accountant General (General and Social Sector Audit) and Accountant General (Revenue and Economic Sector Audit) Odisha as required under the provisions of Audit and Accounts Regulations 2007 and State Government rules.

As of August 2012, accounts of 19 bodies/authorities were not received in the office of the Accountant General (G&SSA), Odisha, though entrustment of Audit of those bodies / authorities was made to the Comptroller and Auditor General of India.

Delays were also noticed in submission of annual accounts by the commercially managed departmental undertakings.

Cases of misappropriation, losses and defalcations were pending for settlement for long in many of the departments of State Government despite the same being pointed out regularly in earlier Audit Reports. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent occurrence of such cases in future.

The Chief Controlling Officers did not submit Detailed Contingent Bills against the advances drawn on Abstract Contingent (AC) Bills of ₹ 62.18 crore for up to eight years as of 31 March 2012. A rigorous monitoring mechanism needs to be put in place by the Drawing and Disbursing Officers (DDOs) to adjust AC Bills in time and not to advance further amounts without adjustment of earlier advances.

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.

A large amount of unspent balance (₹ 656.07 crore) was lying in 889 Personal Deposit (PD) Accounts and were not credited back to Government Account. There were 16 PD accounts involving ₹ 13.74 crore lying inoperative for a period ranging from four to 44 years as of March 2012. Parking of fund in PD accounts adversely affected the transparency of State accounts. Further, it also greatly erodes budgetary and legislative control over the State's finances. Government may take suitable measures for closure of inoperative PD accounts and transfer of balance fund to the Consolidated Fund as provided in codal provisions.