Executive Summary

Background

In July 2005, the Haryana 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 with 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 legislation of the FRBM Act have been realised to some extent in terms of reducing revenue/fiscal deficit and minimising liabilities. However, a host of institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and to promote fiscal stability. The Government has done well in establishing an institutional mechanism on fiscal transparency and accountability.

The report

Based on the audited accounts of the Government of Haryana for the year ended March 2012, this Report provides an analytical review of the Annual Accounts of the Government. The Report is structured in three Chapters.

Chapter 1 is based on the audit of Finance Accounts and makes an assessment of the Haryana Government's fiscal position as on 31 March 2012. It provides an insight into trends of committed expenditure and borrowing patterns besides giving a brief account of Central funds transferred directly to 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 Haryana Government's compliance with various reporting requirements and financial rules. The report also compiles the data collected from various government departments/organisations in support of the findings.

Audit findings and recommendations

Chapter I

Fiscal Correction: The fiscal positions in terms of the trends in fiscal parameters, i.e. revenue, fiscal and primary deficit/surplus which indicated increasing trends since 2008-09 had shown some improvement during 2011-12. But these were still in deficit. As per recommendation of Thirteenth Finance Commission, the revenue deficit is to be brought down to zero by 2011-12. The State can still achieve the FRBM Act targets through concerted efforts for better tax compliance, reductions in tax collection costs and pruning unproductive expenditure.

Interest payments: Interest payments (₹ 4,001 crore), increased by 21 *per cent* during the year over 2010-11 and were within the projections made in the Fiscal Correction Path (₹ 4,125 crore), the Medium Term Fiscal Policy Statement (₹ 4,345 crore) and the Report of Thirteenth Finance Commission (₹ 4,007 crore).

Non-Plan expenditure: Revenue expenditure (₹ 32,015 crore) was 84 *per cent* of the total expenditure (₹ 38,014 crore) and 64 *per cent* thereof was the Non-Plan component (₹ 24,223 crore). Non-Plan revenue expenditure was higher than the normative assessment of the Thirteenth Finance Commission (₹ 20,360 crore) and the projection of Fiscal Correction Path (₹ 23,490 crore) but was within projection made in Medium Term Fiscal Policy Statement (₹ 24,681 crore).

Incomplete projects: Eight infrastructural projects, scheduled for completion between April 2007 and September 2011, were incomplete. Time and cost overruns of these incomplete projects will have to be reduced so as to ensure value for money for the people of Haryana.

Review of Government investments: The average return on Government's investments in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.02 and 0.17 *per cent* in the past five years, whereas its average interest outgo was in the range of 7.43 to 9.73 *per cent*. This is an unsustainable proposition. The Government should, therefore, seek better value for money in investments as otherwise, high cost borrowed funds invested in projects with low financial returns will continue to strain the economy. Projects which are justified on account of low financial but high socio-economic returns may be identified and prioritised with full justification for the high cost borrowings. Time has come to review the working of State-owned Public Sector Undertakings incurring huge losses and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down the sick units by disinvesting their equity.

Debt sustainability: As per the FRBM Act 2005, the total debt including contingent liabilities should not exceed 22.6 *per cent* of the estimated Gross State Domestic Product (GSDP) for the year. The State's total liability including guarantees and letter of comfort during 2011-12 was ₹ 60,840 crore which was 19.67 *per cent* of the GSDP which was well within the parameters of the FRBM Act 2005. The revenue deficit indicates that some portion of the high cost borrowings is being used by the Government for meeting its current expenditure. Borrowed funds should be used as far as possible only to fund capital expenditure while revenue expenditure should be fully met from revenue receipts. Efforts should be made to return to the stage of primary surpluses and zero revenue deficit as soon as possible. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from Government of India to the State implementing agencies: GOI directly transferred ₹ 2,009.71 crore to State implementing agencies during the year, and it increased by ₹ 700.87 crore (54 *per cent*) over the previous year. As the funds were not routed through the Government accounts, the direct transfer of funds from the GOI to the State implementing agencies runs the risk of oversight of maintenance of accounts and utilisation of funds by these agencies. In the absence of uniform accounting practices followed by all these agencies, proper documentation was not in place and timely reporting about the status of expenditure by these implementing agencies was not being done.

Chapter II

Financial management and budgetary control:

Slow progress in implementation of various social and developmental programmes in the State left overall savings of ₹ 9,450.85 crore even after offsetting of excess of ₹ 263.45 crore. The excess expenditure requires regularisation under Article 205 of the Constitution of India. There were instances of inadequate provision of funds and unnecessary or excessive re-appropriations. Rush of expenditure at the end of the financial year was another chronic feature noticed in the State. In many cases, the anticipated savings were either not surrendered or surrendered on the last two days of the year, leaving no scope for utilising these funds for other developmental purposes.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

Chapter III

Financial Reporting:

The Government's compliance with various rules, procedures and directives was lacking in various departments, as evidenced by the inordinate delays occurred in furnishing utilization certificates against loans and grants by various grantee institutions. Submission of Annual Accounts by autonomous bodies and departmentally managed commercial undertakings were also delayed. Probing the instances of losses and misappropriations are continuing for longer periods. Departmental inquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future. Substantial amounts of receipt and expenditure were classified under omnibus minor head '800-Other Receipts/Expenditure' during 2011-12 which should be avoided for greater transparency in financial reporting.