# EXECUTIVE SUMMARY

## Background

The State is located at the southern end of the country, sharing borders with Tamil Nadu and Karnataka. In terms of geographical area, Kerala is ranked 21st in the country with an area of 38,863 sq.km. While the State is having a population of 3.34 crore (12th in the country), it remains the third most densely populated State with a density of 859 persons per sq.km. The State's population increased from 3.18 crore in 2001 to 3.34 crore in 2011 recording a decadal growth of five *per cent*. The State's percentage of population below the poverty line is less than the all-India average. The State's Gross State Domestic Product (GSDP) in 2012-13 at current prices was ₹3,63,305 crore. The State's literacy rate increased from 90.92 *per cent* (as per 2001 census) to 93.91 *per cent* (as per 2011 census). The per capita income of the State at current prices (Economic Review 2012) stands at ₹90,816 against the country average of ₹68,491.

This Report of the Finances of the Government of Kerala is being brought out with a view to assess objectively, the financial performance of the State during 2012-13 and to provide the State Government and the 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 budget estimates of 2012-13.

## The Report

Based on the audited accounts of the Government of Kerala for the year ended March 2013, this Report provides an analytical review of the Annual Accounts of the State Government. This Report is structured in three Chapters.

**Chapter 1** is based on the audit of Finance Accounts and makes an assessment of the Kerala Government's fiscal position as on 31 March 2013. It provides an insight into trends in committed expenditure and borrowing pattern, 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 the audit of Appropriation Accounts and gives a Grant-by-Grant 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 Kerala Government's compliance with various reporting requirements and financial rules. The report also compiles the data collated from various Government departments/organizations in support of the findings.

## Audit findings and recommendations

### Chapter I

### Finances of the State Government

**Performance of the State :** The State had revenue deficit during the last five years (2008-2013). With a view to ensuring prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management, the State Government has passed Kerala Fiscal Responsibility Act in 2003 and based on the recommendations of Thirteenth Finance Commission, the Act was amended in 2011. However, the State Government failed to achieve the revenue and fiscal deficit targets fixed in the Act (Amended) during the last two years.

**Revenue Receipts :** During the current year, the State's Revenue receipts (₹44,137 crore) increased by 16 *per cent* (₹6,127 crore) over the previous year. This increase was mainly under Tax revenue (₹4,358 crore) and Non-tax revenue (₹1,606 crore). As in the preceding two years, current year also the growth rate of revenue receipt (16 *per cent*) was higher than the growth rate of Gross State Domestic Product (15.3 *per cent*). However, the revenue collected during the year was eight *per cent* lower the projections made (₹48,141 crore) in the Medium Term Fiscal Plan. 'Taxes on Sales, Trade, etc.' and 'State Lotteries' were the major sources of State's own tax revenue and non-tax revenue respectively.

**Revenue Expenditure** : Revenue expenditure also increased by 16 *per cent* during the year. Of the total expenditure of ₹59,228 crore during 2012-13, share of revenue expenditure was 90 *per cent* (₹53,489 crore). Above 65 *per cent* of the Revenue expenditure was incurred on salaries, wages, pension payments, interest payments and subsidies. Though the growth rate of revenue expenditure was almost in line with that of revenue receipts, it was ₹1,884 crore more than the projections (₹51,605 crore) made in the Medium Term Fiscal Plan.

**Capital Expenditure** : During the year Capital expenditure (₹4,603 crore) increased by ₹750 crore (19 *per cent*) over the previous year and it accounted for eight *per cent* of the total expenditure of the State. Though there was increase in capital expenditure (mainly under Economic Services), proportion of Capital expenditure to total expenditure has been much lower as compared to General Category States during 2009-10 and 2012-13.

**Investment and returns** : As of 31 March 2013, the State had invested ₹4,511.03 crore in Statutory Corporations, Government companies, Joint Stock Companies and Co-operatives. The average return on these investments was 1.3 *per cent* during the last five years, while the Government paid an average interest rate ranging from 7.1 *per cent* to 7.5 *per cent* on its borrowings during the same period.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increase in non-developmental expenditure like salaries, interest payments, pension and subsidies year after year reduce the net availability of funds from the borrowings for infrastructure development. The State's low return on investments indicates an implicit subsidy and use of high cost borrowings for investments, which yields low return and is not sustainable.

**Loans and Advances :** Outstanding loans and advances given by the State Government to Statutory Corporations, Government companies and Co-operative Societies was ₹10,456 crore, recording an increase of ₹1,062 crore over the previous year. There was huge arrears in repayment of loan from 68 institutions amounting to ₹6,382.47 crore (including interest), which include Kerala Water Authority (₹2,922.55 crore), Kerala State Electricity Board (₹1,536.21 crore), Kerala State Road Transport Corporation (₹459.97 crore) and Kerala State Cashew Development Corporation (₹395.32 crore). In spite of these arrears, ₹771.83 crore was released to defaulting loanees during 2012-13. This includes Kerala State Housing Board (₹267.59 crore), Kerala Water Authority (₹256.91 crore) and Kerala State Road Transport Corporation (₹175 crore). Before release of loans to statutory corporations/ Government companies, Government should review the repaying capacity of these institutions and alternate methods may be considered for releasing funds.

**Debt Management:** Fiscal liabilities at the end of the current year worked out to ₹1,08,477 crore and stood at 29.9 *per cent* of GSDP, which was better than the target of 31.7 *per cent* fixed in the Kerala Fiscal Responsibility (Amendment) Act, 2011. The quantum spread along with primary decreased steadily from 2010-11 to 2012-13 and became negative in 2012-13 showing rising trend of Debt-GSDP ratio. The resource gap (sufficiency of non-debt receipts) was negative during the period 2008-13 (except during 2010-11) which showed that the incremental non-debt receipts were inadequate to finance incremental primary expenditure and incremental interest burden. The maturity profile of debt of the State shows that the State will have to repay 42.4 *per cent* of its debt between one and seven years.

There has been a decline in net availability of funds from its borrowings as large portion of these funds are being used for debt servicing. The ratio of financial assets to liabilities has also deteriorated indicating the greater part of liabilities was without an asset backup. The Balance from Current Revenue (BCR) plays a critical role in determining the State's plan size. A negative BCR adversely affects the same and reduces the availability of funds for additional infrastructure requirement.

**Deficit :** All the key fiscal parameters, i.e., revenue, fiscal and primary deficits increased during 2012-13 when compared to previous year. The revenue, fiscal and primary deficit increased to ₹9,352 crore, ₹15,002 crore and ₹7,797 crore in 2012-13 from ₹8,035 crore, ₹12,815 crore and ₹6,521 crore respectively in 2011-12. The ratio of revenue deficit to fiscal deficit decreased from 62.7 *per cent* in 2011-12 to 62.3 *per cent* in 2012-13. As a proportion of GSDP, the revenue deficit increased to 2.6 *per cent* in 2012-13. These percentages were more than the targets fixed (0.89 *per cent* and 2.74 *per cent*) in the Medium Term Fiscal Plan for 2012-13 to 2014-15.

Increasing revenue and fiscal deficit shows growing fiscal imbalance of the State. Similarly, increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been to meet current expenditure.

**Monitoring of funds transferred directly from the GOI to the State implementing agencies:** Government of India directly transferred ₹2,289.26 crore to the state implementing agencies during the year. But transfer of funds from Government of India to the state implementing agencies directly ran the risk of inadequate monitoring of utilisation of funds by these agencies in the absence of uniform accounting procedures and effective monitoring system. The State Government have to put in place an appropriate control mechanism to ensure proper accounting and timely utilisation of funds flowing directly to implementing agencies through off-budget route

## Chapter II

### Financial Management and Budgetary Control

During 2012-13, expenditure of ₹62,958.33 crore was incurred against total grants and appropriation of ₹73,854.87 crore, resulting in savings of ₹10,896.54 crore. The overall savings were the net result of savings of ₹11,384.55 crore off set by excess of ₹488.01 crore that require regularisation. Apart from this, regularization of excess expenditure under Article 205 of the Constitution of India was pending for ₹1104.75 crore from 1990-91 to 2011-12. In 45 cases, ₹3,927.33 crore was surrendered on the last day of the financial year, while in seven grants/appropriation savings amounting to ₹86.66 crore were not surrendered. In 127 cases, augmentation/reduction of provision by re-appropriation proved injudicious as the final expenditure of the re-appropriated sub heads resulted in savings/excess by more than rupees two crore. Fifty five Controlling Officers did not reconcile expenditure amounting to ₹6,920.44 crore for the year 2012-13.

Budgetary controls need to be strengthened in all Government Departments. Reappropriation/surrender of funds may also be done at the earliest in order to make the funds available to the needy departments of the Government.

## Chapter III

### Financial Reporting

The Government’s compliance with various rules, procedures and directives was lacking in various departments, which was evident from delays in furnishing of utilisation certificates against loans and grants by various grantee institutions. Delays were also noticed in submission of annual accounts by autonomous bodies and departmentally managed commercial undertakings. There were instances of outstanding cases of losses and misappropriations for which departmental action was pending for long periods. Significant amounts of expenditure and receipts under Central and State schemes, booked under the Minor head ‘800-Other Expenditure’ and '800-Other Receipts' were not distinctly depicted in the Finance Accounts of 2012-13, affecting the correctness in financial reporting. During 2012-13, expenditure aggregating ₹4,321.11 crore and receipts aggregating ₹715.78 crore were classified under the Minor Heads '800 Other Expenditure' and '800-Other Receipts' respectively.

The departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions and the annual accounts in respect of the autonomous bodies to the Principal Accountant General (Accounts and Entitlement), Kerala and the Principal Accountant General (Social and General Sector Audit), Kerala respectively. Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases. Large amounts received or expended under various schemes should be depicted in the accounts distinctly, instead of clubbing the same under the Minor head '800-Other Expenditure' and '800-Other Receipts' to ensure correctness in financial reporting.