

EXECUTIVE SUMMARY

Background

This Report on the Finances of the Government of Uttarakhand is being brought out to assess objectively the financial performance of the State during the year 2011-12. The aim of this Report is to provide the State Government with timely input based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programmes of the Government. 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 Fiscal Responsibility and Budget Management Act, 2005 as well as in the Budget Estimates of 2011-12.

The Comptroller and Auditor General of India (C&AG) has been commenting upon the Government's finances for over five years since FRBM legislation and have already published five Reports in the past. Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to center-stage once again, a Stand-Alone Report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the Report year 2009 onwards, C&AG had decided to bring out a separate volume titled "**Report on State Finances.**" This Report is the fourth in this endeavour.

The Report

Based on the audited accounts of the Government of Uttarakhand for the year ending March 2012, this report provides an analytical review of the Annual Accounts of the State Government. The Report is in three Chapters.

Chapter-1 is based on the audit of Finance Accounts and makes an assessment of Uttarakhand Government's fiscal position as on 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.

Chapter-2 is based on audit of Appropriation Accounts and it gives the 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 Uttarakhand Government's compliance with various reporting requirements and financial rules. The chapter also provides details of non-submission of accounts. Besides, the cases of misappropriation/loss that indicate inadequacy of controls in the Government departments are also detailed in this Chapter. The Report also has additional data collated from several sources in support of the findings.

Audit findings and recommendations

Fiscal Correction Path: Uttarakhand is one of the earliest States to have implemented the Fiscal Responsibility and Budget Management Act (FRBM Act), 2005. The State of Uttarakhand achieved the target of attaining revenue surplus from 2006-07 onwards but could not maintain the trend and turned revenue deficit in 2009-10. However, the State was able to bring down the revenue deficit to almost nil (₹ 13 crore) during 2010-11. The revenue deficit ultimately turned into surplus during the current year (2011-12). Fiscal deficit of the State Government continued to be below the target of four *per cent* (revised) as envisaged in FRBM Act since 2007-08. However, the Fiscal Deficit was also within reasonable limits (3.5 *per cent* of GSDP) during 2010-11. At ₹ 1,757 crore (1.85 *per cent* of GSDP), the fiscal deficit is well below the normative assessment made by the Thirteenth Finance Commission (*Th FC*) for the current year.

Greater priority to capital expenditure: No specific norms regarding prioritization of capital expenditure have been laid in FRBM Act. However, the State Government in its Mid Term Fiscal Policy Statement presented to State Legislature along with the Budget 2011-12 has committed itself to the recommendations of the *Th FC*, which advocates that the Fiscal Deficit should be 3.5 *per cent* of the GSDP in the year 2012-13 which would be further brought down to 3 *per cent* by the year 2013-14. For achieving the targets, the State Government has to borrow less and thereby less funds would be available in the near future. However, during the current fiscal, the Government managed to capitalise more funds than what had been done in the year 2010-11, by 25 *per cent*.

Though, the State has been able to attain revenue surplus which in turn brought down the fiscal deficit during the year, efforts should be made to arrest the situation of deficits in order to avoid deficit financing through borrowed funds (₹ 1,320 crore).

Review of Government investments: The average return on Uttarakhand Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives was almost negligible (0.02 *per cent* of the investment made) in the past three years while the Government paid an average interest of 7.60 *per cent* on the borrowed funds for this investment.

The Government may ensure better value for money in investments by identifying the Companies/ Corporations which are endowed with low financial but high socio-economic returns and justify high cost borrowings being channelised there.

Debt sustainability: The debt-GSDP¹ ratio showed declining trend from 2008-09 to 2011-12 from 29 *per cent* to 24.80 *per cent* as against the target (41.10 *per cent*) set forth by the *Th FC* for the year 2011-12 in respect of Uttarakhand.

¹ On Current/ Market price. However, in earlier Reports, the debt/ GSDP ratio was being calculated on Constant GSDP prices.

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 the GoI to the State implementing agencies: There is no single agency monitoring its use and also there is no readily available data to ascertain how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies which are funded directly by the Government of India (GoI).

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 (Accounts and Entitlements) to ensure its effective utilization.

Financial management and budgetary control: The State Government's budgetary processes have not been sound during the year, with errors in budgeting, persistent savings², excess, expenditure without provision and drawals from contingency fund without recouping in the same financial year. In many cases, anticipated savings were either not surrendered or surrendered at the end of the year in the month of March leaving no scope for utilizing these funds for other development purposes. Financial rules were flouted by several departments by drawing funds in excess of requirement, resorting to re-appropriation without proper explanation and expending without provision of funds. Release of funds and surrender of substantial funds at the end of the year is a matter of concern, since funds could not be utilized fruitfully.

Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Issuance of re-appropriation/surrender orders at the end of the financial year should be avoided. A close and rigorous monitoring mechanism should be put in place by the DDOs to ensure adjustment of Abstract Contingent bills during the stipulated time frame.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delays in furnishing utilization certificates against loans and grants from various grantee institutions. Delays were also noted in submission of annual accounts by some of the departmental commercial undertakings. There were instances of theft, loss and misappropriation.

Government departments may take urgent action for finalisation of outstanding annual accounts of departmental commercial undertakings. Departmental enquires in misappropriation cases may be expedited to bring the defaulters to book.

² Can also be termed as shortfall in utilization of funds.