

EXECUTIVE SUMMARY

Background

This Report on the finances of the Government of Uttarakhand is being brought out to assess the financial performance of the State during the year 2012-13 *vis-à-vis* the Budget and the target set under the Fiscal Responsibility and Budget Management Act, 2005 and analyses the dominant trends and structural profile of Government's receipts and disbursement.

Based on the audited accounts of the Government of Uttarakhand for the year ending 31 March 2013 and additional data collected from several sources such as the Economic Survey brought out by the State Government and Census, this report provides an analytical review of the Annual Accounts of the State Government 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 2013. It provides an insight into trends and profile of key fiscal aggregates, committed expenditure, borrowing pattern *etc.* **Chapter-2** is based on Appropriation Accounts and gives grant-wise description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter-3 details Government's compliance with various reporting requirements and financial rules and non-submission of accounts.

Audit findings and recommendations

Fiscal Correction Path: Uttarakhand is one of the earliest States to have passed 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 2011-12 and further increased to ₹ 1,787 crore during the year 2012-13. 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. It was within reasonable limits (3.5 *per cent* of GSDP)

during 2010-11 and 2011-12. At ₹ 1,600 crore (1.48 *per cent* of GSDP) the fiscal deficit was also 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 prioritisation of capital expenditure have been laid in the FRBM Act. However, the State Government, in its Mid Term Fiscal Policy Statement presented to State Legislature along with the Budget 2012-13, has committed itself to the recommendations of the Thirteenth Finance Commission 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 three *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 2011-12, by 53 *per cent*.

Though, the State has been able to attain revenue surplus which has, 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 (₹ 1,021 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 (0.01 *per cent* of the investment made) in the past three years while the Government paid an average interest of 7.89 *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 can justify high cost borrowings being channelised there.

Debt sustainability: The debt-GSDP¹ ratio showed a declining trend from 2008-09 to 2012-13 from 29.05 *per cent* to 23.57 *per cent* as against the target (40 *per cent*) set forth by the Thirteenth Finance Commission for the year 2012-13 in respect of Uttarakhand.

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.

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

Oversight of funds transferred directly from the GOI to the State implementing agencies: There is no single agency monitoring the use of funds transferred directly by GOI to implementing agencies 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.

A system has to be put in place to ensure proper accounting of these funds and updated information should be validated by the State government to ensure effective utilisation of such funds.

Financial management and budgetary control: The State Government's budgetary processes have not been sound during the year, with errors in budgeting, persistent savings², excesses, expenditure without provision and drawals from Contingency Fund without recoument 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 utilising 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 such funds could not be utilised 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 of utilisation certificates against the 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 loss and misappropriation.

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

² Can also be termed as shortfall in the utilisation of funds.