Executive Summary

1 The Report

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Telangana for the year ended March 2016. The Report is structured in three Chapters.

Chapter 1 ***is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2016. It presents and analyses the State Government's resources and their application, developmental expenditure, borrowing pattern, sustainability of debt etc. It also assesses the adequacy of the State's fiscal priorities.***

Chapter 2 ***is based on audit of the Appropriation Accounts and reviews the allocative priorities of the State Government and the manner in which the allocated resources were managed by the various Departments.***

Chapter 3 ***gives an overview of the State Government's compliance with various reporting requirements and financial rules.***

The data collated from several sources in support of the findings of Audit are included as appendices at the end of the report.

2 Audit findings

2.1 Analysis of Finances of the State Government

The State registered revenue surplus of ₹ 238 crore during 2015-16. It is overstated due to misclassification of grants-in-aid (₹ 151 crore) under capital heads and crediting off-budget borrowings (₹ 3,719 crore) to revenue receipts. Fiscal deficit which stood at 3.23 per cent of GSDP is understated by (₹ 3,719 crore) due to crediting off budget borrowing to revenue receipts. It would have the effect of increasing the ratio of fiscal deficit to GSDP from 3.23 per cent to 3.87 per cent.

Total outstanding liabilities constituted 21.37 per cent of GSDP which was within the ceiling of 21.55 per cent prescribed by the 14th Finance Commission.

52.5 per cent of the revenue receipts of ₹ 76,134 crore during 2015-16 came from the State's own tax revenue and 19 per cent came from the revenue receipts from non tax revenue collections, the rest coming from the State's share of Central taxes (16.2 per cent) as well as a central grants (12.3 per cent). During the year, Government issued orders to remit the unspent balances in PD accounts to revenue receipts in violation of accounting provisions inflating revenue receipts to the extent of ₹ 4,218 crore.

Non-plan revenue expenditure of ₹ 54,656 crore constituted 72 per cent of the total revenue expenditure (₹ 75,896 crore) during the year. Capital expenditure (₹ 13,590 crore) stood at 14 per cent of the total expenditure, constituting 2.33 per cent of GSDP. Capital projects in irrigation and road sectors were not completed in time, resulting in non-achievement of the

envisaged benefits. During the year, revenue expenditure accounted for 80 per cent of State's aggregate expenditure, which was in the nature of current consumption, leaving only 20 per cent for investment in infrastructure and asset creation. Although the State Government accorded adequate fiscal priority to development expenditure during 2015-16, it could not ensure that the allocated funds released were utilised optimally for the intended purposes.

Despite, an increase of ₹ 947 crore in investments during the year, the return on investments declined compared to the previous year. The current level of recovery of loans was low with a significant gap between disbursements (₹ 5,233 crore) and recovery (₹ 88 crore).

The maturity profile of debt indicates that the State has to repay more than 53 per cent of its total debt within the next seven years.

(Chapter 1)

2.2 Financial Management and Budgetary Control

Many instances of unrealistic budgetary assumptions and weaknesses in expenditure monitoring and control were observed during the year. Actual expenditure (₹ 1,04,098 crore) incurred was less than the budget provision (₹ 1,39,360 crore) and savings for the current year stood at ₹ 35,262 crore (25 per cent). Out of the savings, ₹ 16,269 crore were surrendered on 31 March 2016.

Several policy initiatives taken up by Government remained either unfulfilled or were partially executed, primarily due to non-approval of the scheme guidelines/modalities, non-commencement of works for want of administrative sanction and poor project implementation, apart from the non-release of funds.

Excess expenditure of ₹ 5,881 crore was incurred during 2015-16 without legislative authorization. Regularisation of excess expenditure for the year 2014-15 amounting to ₹ 304 crore was yet to be carried out by Government by taking legislative approval. Lumpsum provisions (₹ 55 crore) without specific details of expenditure were included in the budget for 2015-16. The entire provision was surrendered at the end of the year. There were several instances of budgetary misclassifications on subsidies, subvention from Central Road Fund etc., which indicated deficiencies in budget formulation.

Unrealistic budgetary allocations resulting in substantial savings, unnecessary supplementary grants, expenditure incurred without provision and excess re-appropriations, resulting in excess provision were indicative of poor budget management.

(Chapter 2)

2.3 Financial reporting

There were delays in submission of annual accounts by several autonomous bodies/ authorities which diluted the accountability and defeated the very purpose of preparation of accounts.

Utilisation certificates were furnished without actual utilisation in respect of funds drawn for execution of various schemes. Detailed Contingent bills were not submitted (₹ 511.71 crore)

for periods dating back to 2003 in violation of the prescribed rules and regulations, which is indicative of lack of internal controls, besides raising apprehensions about the proper end use of the funds.

There were huge accumulations of balances in the Personal Deposit accounts due to drawal of funds in advance of requirements and lapsing of unspent balances at the end of the year. All these point to lapses in monitoring and control over these accounts.

The omnibus Minor Head 800 continued to be operated during the year for recording expenditure and receipts relating to several items even where there were earmarked heads of accounts. The expenditure booked under this head affects transparency in financial reporting and distorts any meaningful analysis of allocative priorities and quality of expenditure.

Substantial adverse balances remained under Public Debt and Deposit heads. Large outstanding balances under suspense heads affect the quality of financial reporting. Lapsing of deposits, non-submission of DC bills and excess payment of pension/family pension indicate ineffective internal controls.

The interest liability (₹ 716.64 crore) on account of Zilla Parishad Provident Fund was not discharged by the Government on deposits of Zilla Praja Parishads on the PF contributions.

It was also seen that there was non-reconciliation of 57 per cent (₹ 53,884 crore) of the total expenditure and 52 per cent (₹ 39,360 crore) of the total receipts with the books of Accountant General (A&E) during the year indicating disregard of codal provisions and financial rules by the controlling officers. Similarly, 10,852 vouchers in support of payments made for an amount of ₹ 3,532 crore from the PAO/Treasuries were not received, which made the system vulnerable to the risk of misappropriation and fraud.

(Chapter 3)