Executive Summary

1 The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ended March 2017, this Report provides an analytical review of the finances of the State Government. The Report has three Chapters:

Chapter 1 *is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2017. It broadly presents and analyses the State Government's resources and their applications.*

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

Chapter 3 *gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during 2016-17.*

The Report has 32 appendices containing additional data collated from several sources in support of the findings.

2 Audit Findings

2.1 Finances of the State Government

Capital expenditure (₹ 15,143 crore) was less than the Budget estimates (₹ 15,388 crore). Its ratio to total expenditure stood at 11.48 per cent which was much lower than the combined average (19.70 per cent) of General Category States.

Devolution to the State was enhanced to the tune of ₹ 4,370 crore during 2016-17 on the basis of 14th Finance Commission recommendations. Audit noted that additional devolution led to increase in Revenue expenditure and not on Capital formation.

The Government earned a meagre return of ₹ 4 crore in 2016-17 on its investment of ₹ 8,975 crore in various Corporations/Companies. The average rate of return on investment was negligible at 0.05 per cent during 2016-17.

The maturity profile of Debt as on 31 March 2017 indicated that State would have to repay more than 50 per cent of debt amounting to ₹ 76,888 crore within the next 7 years which might put strain on the Government budgets during that period.

The ratio of Debt Repayment to Tax revenue declined marginally from 0.15 in 2015-16 to 0.13 in 2016-17.

State Government released an amount of ₹ 8,256.01 crore for taking over the liability under the UDAY scheme leaving the balance loans to the tune of ₹ 6,464.39 crore. Bank/Financial Institutions had not issued any new bonds as stipulated in the UDAY Scheme for the remaining balance loans of DISCOMs.

State Government in its Macro Economic Framework Statement (MEFS) targeted to reduce Fiscal Deficit to 3 per cent of Gross State Domestic Product (GSDP) as against 3.25 per cent, as applicable to certain states, recommended by the 14th FC. However, the fiscal deficit (₹ 30,908 crore) at 4.42 per cent of GSDP was still more than the prescribed limit.

During the year 2016-17, a loan of ₹ 1,670 crore was repaid by AP Housing Corporation to the State Government on the last day of the financial year. This brought the fiscal deficit to GSDP ratio within the limit prescribed (3.25 per cent) by the 14th Finance Commission at the end of the year i.e., on 31 March 2017. However, the same amount was credited back to the account of Corporation immediately (on 18 April 2017) by the Government of Andhra Pradesh.

Revenue expenditure (₹ 1,16,215 crore) at 16.62 per cent of Gross State Domestic Product (GSDP) was more than the Budget estimates (₹ 1,14,168 crore). During the year 2016-17, 85.17 per cent of the revenue expenditure was met from revenue receipts and the balance was financed from borrowed funds, thus registering a revenue deficit of ₹ 17,231 crore. This is fraught with the risk of progressive weakening of State finances over a period of time.

The State of Andhra Pradesh is yet to amend its Fiscal Responsibility and Budgetary Management (FRBM) Act, 2005 as per the recommendations of 14th Finance Commission (FC) for the period 2015-20.

(Chapter 1)

2.2 Financial Management and Budgetary Control

Sound financial management requires advance planning and accurate estimation of revenues and expenditure. There were instances of excess expenditure or substantial savings with reference to provisions made during the year, exhibiting weakness in expenditure monitoring and control. Both situations are grave breaches of financial control.

The overall savings of ₹ 20,280.23 crore (10.47 per cent of budget provision) were the result of savings of ₹ 21,967.05 crore in 35 grants partially offset by an excess of ₹ 1,686.83 crore in five grants under various sections (Voted/Charged).

Excess expenditure over the allocation amounting to ₹ 53,673.19 crore pertaining to the years from 2004 to 2016 was yet to be regularized as of November 2017. The cases of excess expenditure over grants are serious breaches and are in violation of the will of the Legislature. It is important that responsibility is fixed in this regard.

Accordingly, supplementary provision aggregating ₹ 55,903.07 crore proved to be excessive by ₹ 20,280.23 crore over actually required amount of ₹ 35,622.84 crore.

Against the total savings of ₹ 21,967.06 crore, an amount of ₹ 22,382.96 crore was surrendered during the year 2016-17, of which ₹ 21,684.00 crore (99.88 per cent) was surrendered on the last day of the year, i.e., 31 March 2017. This affected the availability of funds in priority areas and desired outcomes.

Excessive/unnecessary/inadequate re-appropriation of funds was also observed. Re-appropriations to heads where original provisions were not made, etc. were noticed which showed lack of coordination between Finance and the line departments. Analysis showed that out of 10,041 items of re-appropriations made by the State Government during the year 2016-17, specific reasons were not intimated in respect of 8,503 items (84.68 per cent).

(Chapter 2)

2.3 Financial Reporting

Audit observed various instances of non-observance of financial rules and procedures and absence of financial controls.

Personal Deposit accounts were an area of serious concern. Huge amounts were credited purportedly for ensuring uninterrupted progress in respect of various schemes implemented by the Government. Unutilized sums were not allowed to lapse to the Government. Tracking of funds lying in PD accounts becomes difficult over a period of time which may lead to loss and embezzlement.

Interest paid at higher rates (6.31 per cent), on borrowings, while huge amounts were kept in PD Account, demonstrated poor cash and financial management by the State Government.

A large number (83,656) of Abstract Contingent (AC)/Detailed contingent (DC) bills involving an amount of ₹ 501.85 crore were lying pending and most of them for many years. In the absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Increasing number of pending DC Bills was fraught with the risk of embezzlement and corruption.

Utilisation Certificates (UCs) were incomplete without statement of expenditure.

Some institutions, including Public Sector Undertakings that were in receipt of grants/ loans from Government failed to adhere to the timelines for submitting annual accounts.

Government had no mechanism to ensure submission of detailed information in respect of quantum of financial assistance provided to various institutions/bodies/authorities and the purpose of such assistance.

The omnibus Minor Head 800 continued to be operated for recording expenditure/receipts relating to several items affecting the transparency in financial reporting.

Non-reconciliation of both Expenditure and Receipts, increased by 27.87 per cent and 3.92 per cent respectively over the figures of previous year. This would affect reliability of financial information.

(Chapter 3)