EXECUTIVE SUMMARY

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Fiscal situation of the State

Revenue expenditure as a percentage of GSDP increased from 2012-13 to 2016-17 even after accounting for inflation, while revenue receipts and capital expenditure decreased during 2013-14 but increased thereafter.

(Paragraph 1.1.1)

The State has achieved Revenue Surplus and Fiscal Deficit targets of the budget estimates 2016-17, XIV FC and FRBM Act. However, State could not achieve the target of ratio of outstanding debt to GSDP prescribed in budget estimates 2016-17. Audit estimation further revealed overstatement of Revenue Surplus and understatement of both Fiscal Deficit and outstanding liabilities in the Finance Accounts.

(Paragraph 1.1.2)

Resource mobilisation

Revenue receipts grew by ₹ 17,796 crore (17 *per cent*) over 2015-16, but were lower than the budget estimates by ₹ 2,788 crore.

Revenue expenditure increased by ₹ 19,766 crore (20 *per cent)* over 2015-16, but were lower than the budget estimates by ₹ 3,048 crore.

Capital expenditure increased by ₹ 10,453 crore (62 *per cent*) over 2015-16, but were lower than the budget estimates by ₹ 3,458 crore.

Recommendation: *The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between the budget estimates and actuals is bridged.*

(Paragraphs 1.1.1 and 1.1.3)

Summary of important audit findings and recommendations:

New Pension Scheme (NPS)

Though ₹ 83.27 crore was credited during 2006-07 to 2009-10 under Major Head 8342 as employees' contribution, the Government did not make the matching contribution in the respective years. Further, against the employees' contribution of ₹ 1,197.51 crore during 2010-11 to 2016-17, the actual contribution made by the State Government was ₹ 1,302.40 crore. Under the accounting method adopted by GoMP since 2010-11, it cannot be ascertained whether the Government contribution in excess of employees' contribution was against the shortfalls of earlier years.

GoMP operates the Revenue Receipts Major Head 0071 for transferring the Government and employees' contribution to the Fund. This practice is questionable and incorrect.

Against the total contribution of ₹ 2,499.91 crore (employees' share and Government share for the period 2010-11 to 2016-17), only ₹ 2,401.93 crore was transferred to NSDL leaving a short-transfer of ₹ 97.98 crore to the Fund. Also during 2016-17, Government transferred only ₹ 628.48 crore to NSDL out of total contribution of ₹ 650.34 crore. This resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹ 21.86 crore for 2016-17.

Recommendation: *The State Government, in consultation with Accountant General (A&E), should (i) reconcile the amount of employees' and Government contribution for the period 2004-05 to 2016-17 and depict the true picture of contribution towards NPS in the Finance Accounts for the year 2017-18 (ii) review the existing method of budgeting and booking employees' contributions in the New Pension Scheme under the Receipt Major Head 0071.*

(Paragraph 1.3.4.1)

Adequacy of public expenditure

The ratio depicting the adequacy of Public Expenditure of Madhya Pradesh in 2016-17 was higher than the average of general category states and also higher than the performance of the State itself in 2012-13, except in the Health Sector.

(Paragraph 1.3.5.1)

Incomplete projects

Blocking of funds on incomplete works impinges negatively on the quality of expenditure. The Water Resources Department, Public Works Department and Narmada Valley Development Authority had 242 incomplete projects valued at ₹ 9,557.16 crore with cost over-run of ₹ 4,800.14 crore in 24 projects (where costs have been revised).

Recommendation: *The Water Resources Department, Public Works Department and Narmada Valley Development Authority may evolve a mechanism to ensure timely completion of projects.*

(Paragraph 1.4.2)

Investments and Returns and Loans advanced

During 2012-17 the State Government incurred a loss of ₹ 4,857 crore on account of difference between the Government's borrowing cost and the return on investment on working PSUs. The loss was ₹ 1,224 crore in 2016-17 alone. The return on investment on non-working PSUs cannot be estimated.

The State Government incurred a loss of ₹ 1,712 crore on account of difference between the Government's borrowing cost and the loans advanced over the past five years. The loss was ₹ 310 crore in 2016-17 alone.

Recommendation: *The State Government should rationalise its investments and loans advanced to various entities such that the return on investment and loans at least matches the Government borrowing costs.*

(Paragraphs 1.4.3 and 1.4.4)

Transactions under Reserve Funds

Two reserve funds with balance of ₹ 40.36 lakh were not operated during the period 2014-17. Three other reserve funds had investments amounting ₹ 7.69 crore as on 31 March 2017 but in none of these funds, investment were made in the past three years, if not earlier.

Transfers into reserve funds and disbursement therefrom are effected through debit and credit entries under the appropriate revenue expenditure heads under the Consolidated Fund. These represent actual cash transfers only if they impact the Reserve Bank Deposits either directly or by way of investment.

Since there were no actual cash transactions in the reserve funds of GoMP, the balances depicted in the accounts are mere book entries. This violates the principles underlying the creation and operation of reserve funds.

Recommendation: *The Finance Department should review the practice of treating of transactions and balances under reserve funds as mere book entries and adhere to the principles of underlying the creation and operation of reserve funds by actual investment of balances with the Reserve Bank of India.*

(Paragraph 1.5.2)

Sinking Fund

The XII Finance Commission recommended that States should set up Sinking Funds for amortisation of loans. In terms of the guidelines of the Reserve Bank of India, States are required to contribute to the Consolidated Sinking Fund, a minimum of 0.50 *per cent* of their outstanding liabilities as at the end of the previous year. However, GoMP has not constituted a Consolidated Sinking Fund for amortisation of loans unlike other States. The non-creation of the Sinking Fund has resulted in the State Government not contributing ₹ 635.72 crore (0.50 *per cent* of their outstanding liabilities of ₹ 1,27,144.43 crore as on 31 March 2016). This overstated the Revenue Surplus and understated the Fiscal Deficit of 2016-17 by ₹ 635.72 crore.

Recommendation: *The State Government may consider accepting the recommendation of the XII FC and create a Consolidated Sinking Fund.*

(Paragraph 1.5.2.1)

State Disaster Response Fund (SDRF)

Government of India (GoI) replaced the erstwhile Calamity Relief Fund with the State Disaster Response Fund (SDRF) with effect from 1 April 2010. The SDRF had a closing balance of ₹ 668 crore at March 2017. As per Para 19 and 20 of SDRF guidelines 2010, the balances under funds should be invested, and the Government was required to pay interest on the un-invested balances at the rate of interest to be paid on overdraft. However, the funds had not been invested since creation of the fund, GoMP had not paid any interest to SDRF. The unpaid interest works out to ₹ 118.04 crore as calculated at the applicable rates of interest, and thus created a liability to that extent at end of March 2017. The un-paid interest for 2016-17 was ₹ 56.78 crore, overstating the revenue surplus and understating the fiscal deficit to this extent. The balances in the Fund and unpaid interest since the operation of the Fund represent the unaccounted liabilities of the State.

Recommendation: *The State should invest the balances lying under the SDRF as per guidelines.*

(Paragraph 1.5.2.2)

Guarantee fees

Guarantee fees of ₹ 206.68 crore were receivable from 14 institutions. Two institutions however, paid more guarantee fees than required. Similarly, though no guarantee fee was receivable from MP Power Transmission Company Ltd. Jabalpur, the institution paid guarantee fee of ₹ 4.44 crore during 2016-17. The remaining 12 institutions with outstanding guarantees of ₹ 20,596.79 crore did not pay the stipulated guarantee fees.

Recommendation: *The Finance Department and the concerned Administrative Departments are required (i) to ensure that all institutions availing of guarantees pay guarantee fees in full, and till such time no further guarantees are given to these institutions, and (ii) to review and reconcile the guarantee fee details of MP Power Generating Company, MP Power Transmission Company and MP Police Housing Corporation who, as per the Finance Accounts, have paid more guarantee fees than required.*

(Paragraph 1.5.2.3)

Guarantee Redemption Fund (GRF)

In terms of guidelines of RBI based on the report of committee of State Finance Secretaries, the State Government is required to contribute a minimum of one *per cent* of outstanding guarantees at the time of the creation of the fund and thereafter contribute a minimum of 0.50 *per cent* every year to achieve a minimum level of three *per cent* in the next five years. As per above said formula, the State Government was required to contribute ₹ 688.26 crore to GRF. Instead, the State Government contributed ₹ 14.21 crore. This shortfall resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit by ₹ 674.05 crore. Accordingly, GoMP contributed ₹ 408.79 crore to the GRF as on 31 March 2017, which was invested in Central Government Dated Securities. Of this, ₹ 14.21 crore was credited/invested in 2016-17.

Recommendation: *The State Government should consider revising the GRF scheme and contribute to the Fund as per guidelines of RBI.*

(Paragraph 1.5.2.3)

Savings

Failure of the Finance Department to monitor departmental expenditure by controlling offices resulted in savings amounting to ₹ 40,425.63 crore remaining unutilised during 2016-17.

Recommendations: *The Finance Department should monitor the trends of expenditure by Departmental Controlling Officers, so that funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.*

(Paragraph 2.1)

Excess expenditure requiring regularisation

State Government failed to get regularised the excess expenditure amounting to ₹ 758.14 crore covering 32 grants and 19 appropriations pertaining to the period 2003-15.

Recommendation: *The Finance Department should ensure that the excess expenditure of the past 12 years is regularised by the State Legislature at the earliest and strict departmental action is taken against controlling officers who exceed the budget.*

(Paragraph 2.2.1)

Defective sanctions to surrender of funds

The Accountant General (A&E) refused to accept 46 defective sanctions for surrender of funds amounting to ₹ 3,989.45 crore.

Recommendations: *The Finance Department should ensure that excessive, unnecessary supplementary provisions and injudicious surrenders are avoided and that sanction orders for surrenders by controlling officers are timely, complete and valid as stipulated under the guidelines.*

(Paragraph 2.2.9.1)

Inappropriate expenditure of ₹ 3.49 crore from Contingency Fund

The State Government incurred ₹ 3.49 crore from the Contingency Fund during March 2017 for organising various cultural programmes which do not constitute emergent and unforeseen expenditure as stipulated under the requirements for drawals from the Contingency Fund.

Recommendations: *The State Government should ensure that amounts from the Contingency Fund should be advanced only for expenditure of emergent and unforeseen nature, as stipulated under the Constitutional provisions.*

(Paragraph 2.2.11)

Rush of expenditure

100 *per cent* expenditure was incurred during March 2017 in 34 cases of 18 grants/appropriations amounting to ₹ 14,169.78 crore. Further, GoMP issued sanction orders for ₹ 2,148.01 crore in respect of six grants for different schemes in the last four days of the financial year.

Recommendation: *The Finance Department should control rush of expenditure during the fag end of the financial year.*

(Paragraph 2.2.12)

Personal Deposit (PD) accounts

PD accounts of the State have a closing balance of ₹ 5,350.37 crore as on 31 March 2017. Further, 341 PD accounts in 53 treasuries with balances of ₹ 650 crore remained inoperative for more than three years.

Recommendation: *The Finance Department should review all PD accounts and ensure that all amounts unnecessarily lying in these PD accounts are immediately remitted to the Consolidated Fund and appropriate action is taken against departmental officers who fail to follow the financial rules.*

(Paragraphs 3.1 and 3.1.1)

Building and Other Construction Workers (BOCW) Welfare Cess

An amount of ₹ 1,218.47 crore, available with the Board as on March 2017, has been kept in bank accounts. However, interest earned from the bank accounts is not being depicted in Cash Book.

Apart from not preparing its accounts since 2012-13, the Board provided three different figures of available balances to Audit. Therefore, the authenticity of receipts and expenditure could not be vouchsafed in Audit.

The Board does not have a fixed asset register, in the absence of which, the physical existence of the assets created and their location could not be verified.

Recommendation: *The State Government should ensure that the MP BOCW Welfare Board finalises accounts and fulfil its mandate on improving the working conditions of building and other construction workers and providing adequate financial assistance to them, as prescribed in the Act.*

(Paragraph 3.2.1)

Opaqueness in accounts

GoMP departments routinely operated minor head 800 which is to be operated only in rare cases. During 2016-17, ₹ 33,003.16 crore under receipts and ₹ 20,906.92 crore under expenditure was booked under minor heads 800 resulting in opaqueness of transactions.

Recommendation: *The Finance Department should, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate head of account.*

(Paragraph 3.3)

Non-submission of Utilisation Certificates and submission of false Utilisation Certificates

Departments of GoMP have failed to ensure submission of Utilisation Certificates (UCs) on grants-in-aid of ₹ 18,080.10 crore.

The Commissioner, Archaeology, Archives and Museums, Bhopal received ₹ 74.05 crore during 2013-14 to 2014-15 under XIII Finance Commission. Though the entire amount was unspent and parked in Public Accounts, the Commissioner furnished UCs for the entire amount.

Recommendation: *The Finance Department is required to prescribe a time frame within which administrative departments releasing grants collect UCs pending for more than the time stipulated in the grant orders and also ensure that till such time, administrative departments release no further grants to defaulting grantees. Fixing of accountability and appropriate departmental and other action may be considered for officers and implementing agencies providing false UCs.*

(Paragraphs 3.5 and 3.6)

Parking of fund in bank accounts to avoid lapse of Budget Grants

Five Departments had withdrawn ₹ 20.34 crore from the Consolidated Fund and deposited the same in 19 bank accounts without obtaining necessary permission from the Finance Department.

The Commissioner, Directorate of Swaraj Sansthan, Bhopal, had withdrawn ₹ 8.59 crore from the treasury during 2011-12 to 2016-17 and deposited the same in the bank account in violation of the rules stipulated in MPTC.

Recommendation: *The Finance Department should evolve a mechanism to ensure that Government departments and entities under them do not draw money from the treasury to prevent the lapse of budget grants. The Finance Department should also review all bank accounts operated by State Government departments and close all accounts that are not authorised by the Finance Department. Fixing of accountability and appropriate departmental and other action may be considered for officers depositing money in bank accounts without taking permission from the Government.*

(Paragraphs 3.12 and 3.12.1)

Finalisation of accounts of PSUs/Corporations

The accounts of 29 working PSUs / Corporations (54 accounts) and seven non-working PSUs / Corporations (94 accounts) are in arrears of one to 27 years. Despite this, the Finance Department has provided budgetary support of ₹ 8,912.99 crore to 18 PSUs during the period for which accounts were in arrears.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts, ensure that the accounts are made current within a reasonable period and stop financial support in all cases where accounts continue to be in arrears.*

(Paragraph 3.14)

Dividend not declared

As per State Government policy (July 2005), all PSUs are required to pay a minimum dividend of 20 *per cent* of profit after tax. As per their latest finalised accounts, 29 PSUs earned aggregate profit ₹ 397.73 crore, though only four PSUs proposed dividend of ₹ 43.38 crore and 25 PSUs did not declare dividend of ₹ 37.49 crore despite earning profit.

Recommendation: *The State Government should ensure that all profit earning PSUs pay the stipulated dividend to Government.*

(Paragraph 3.15)