

# Executive Summary

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## 1 The Report

*Based on the audited accounts of the Government of Andhra Pradesh for the year ended March 2022, this Report provides an analytical review of the finances of the State Government.*

## 2 Audit Findings

### 2.1 Fiscal Position

*During 2021-22, Andhra Pradesh registered GSDP growth rate of 18.47 per cent.*

*State Government amended the APFRBM Act in December 2021. While enacting the targets/ceiling of fiscal parameters of the State for the years 2021-22 to 2025-26, the Government guarantees were excluded while calculating the targets/ceiling with reference to Outstanding total liabilities of the State to GSDP. The limit of annual incremental risk weighted guarantees which was 90 per cent of the Total Revenue Receipts (TRR) in the year preceding the current year was enhanced to 180 per cent to increase the fiscal space.*

*The fiscal parameters of the State as reflected in its Revenue, Fiscal and Primary Deficits were negative throughout the five-year period 2017-22.*

*There were instances of misclassification of revenue transactions under capital section and non-accountal of other liabilities, which would have pushed up the Deficits to a further extent, as brought out in this Report as well as in the State Finances Audit Report of the CAG over the last few years.*

*Though, the outstanding liabilities were ostensibly below the targets prescribed in the revised APFRBM Act, these would be way more, if the liabilities of the State Government with regard to its extra-budgetary borrowings are taken into account. The liabilities of the State have been increasing year-on-year and majority of the borrowings during the year 2021-22 were utilised to balance Revenue Account of the State affecting asset creation in the State.*

*(Chapter 1)*

### 2.2 Finances of the State

*The State witnessed an increase of 28.53 per cent in Revenue Receipts during the year 2021-22 as compared to the previous year mainly due to increase in transfers from Government of India by 22.90 per cent.*

*State Government receipts were overstated to an extent of ₹ 319.02 crore due to misclassification of reduction of revenue expenditure as revenue receipts.*

*The State received compensation of ₹ 6,389 crore towards revenue loss due to GST implementation, partly as Grants (₹ 3,117 crore) and partly as back-to-back loans (₹ 3,272 crore) from GOI. The debt servicing of this loan would be done from the*

*collection of cess in the GST compensation Fund and hence, repayment obligation will not be on the other resources of State.*

*Revenue Expenditure increased by 4.25 per cent during 2021-22. State Government during 2021-22 lapsed unspent amount of ₹ 26,380 crore to Consolidated Fund of the State which resulted in reduction of Revenue Deficit and Fiscal Deficit when compared to previous year. State Government while lapsing the unspent balances has also lapsed the FC recommended health sector grants (₹ 488.15 crore) given by GoI. The action of State Government in lapsing these funds were in violation of GoI guidelines and also resulted in understatement of Revenue Expenditure and Revenue Deficit while creating an interest burden (₹ 11.33 crore for not transferring the funds) on Consolidated Fund of the State.*

*As against the GoI guidelines to transfer pass-through grants given for implementation of various centrally sponsored schemes to Single Nodal Account pertaining to those schemes, the State Government had lapsed the unutilised funds of ₹ 6,356 crore to the Consolidated Fund of the State as reduction of expenditure.*

*State Government has not reduced the assets in the books of Government Account in respect of assets transferred to AP Road Development Corporation and AP Water Resources Development Corporation which resulted in overstatement of Assets.*

*The share of capital expenditure (9.21 per cent of total expenditure) was lower in the State compared to General States average (14.41 per cent of total expenditure) affecting the physical capital formation with a cascading impact on economic growth in the long run.*

*The funds provided to State Disaster Response Fund (SDRF) were being kept idle from 2019-20 by transferring them to Personal deposit account illegally without being spent for drought relief as per sanctions was in violation of SDRF guidelines.*

*Outstanding Public Debt at the end of the year has increased by 6.97 per cent (₹ 24,257 crore) over the previous year. State Government has also a liability for off-budget borrowings of ₹ 1,18,394 crore and committed liability on account of pending payments of ₹ 17,804.20 crore to DISCOMs (towards electricity dues), pending payments towards irrigation projects and water supply schemes to the end of the year 2021-22 which it has not disclosed as part of its budget documents. This has the impact of diluting public financial management and oversight role of the Legislature and placing major sources of funding of Government's crucial infrastructure projects beyond the control of the Legislature.*

*(Chapter 2)*

### **2.3 Budgetary Management**

*Sound budgetary management requires advance planning and accurate estimation of revenues and expenditure. There were instances of incurring excess expenditure or large savings with reference to provisions made during the year, which point to flaws in expenditure monitoring and control. A majority of Controlling Officers did*

*not explain the reasons for variations in expenditure vis-à-vis allocations, to the Principal Accountant General (A&E), which affected the accountability mechanism of Government. This weakens legislative control over expending public finances.*

*State Government has to regularise an amount of ₹3,51,002.61 crore from the year 2004-05 to 2020-21. Government needs to estimate its resources more realistically and manage its expenditure judiciously and ensure that prior Legislative sanction is obtained for anticipated requirement of additional funds.*

*(Chapter 3)*

## **2.4 Quality of Accounts and Financial Reporting practices**

*Operation of PD Accounts lacked clarity and transparency as huge amounts were shown to have been transferred to these accounts during the year but were not actually made available to the departmental officials for incurring expenditure. Transferring of funds from Consolidated Fund of the State to Personal Deposit Accounts without incurring actual expenditure, resulted in inflation of expenditure and lack of legislative scrutiny. It is imperative to curtail the usage of Personal Deposit Accounts to maintain the sanctity of budgetary process.*

*Non-submission of accounts by Autonomous Bodies, Development Bodies/Authorities and PSUs was in violation of prescribed financial rules and directives. These point to inadequate internal controls and deficient monitoring mechanism of the State Government Departments.*

*There were 1,99,616 adjustment transactions amounting to ₹11,237.61 crore relating to Personal Deposits carried out during the year 2021-22. These transactions were carried out centrally by Central Processing Cell (CPC) of CFMS, without routing through/obtaining necessary approvals of the Treasury as required by the provisions of the State Financial Code / Treasury Code. Further, adequate documentation was not visible on large number of adjustment transactions which affects the transparency in Government Accounts.*

*State Government deducted an amount of ₹1,351.47 crore from Finance Commission grants pertaining to Local Bodies towards electricity charges dues to DISCOMs during 2021-22. The action of the State Government in deducting the funds from Finance Commission grants without the consent of Local Bodies is in contravention to the Constitutional intent of autonomy to the Local Bodies.*

*(Chapter 4)*

## **2.5 General Purpose Financial Report of State PSUs**

*As on 31 March 2022, there were 118 PSUs of which 97 are working PSUs and 21 are inactive PSUs in Andhra Pradesh under the audit jurisdiction of CAG. Out of 97 working PSUs, eleven PSUs were related to Power sector and 86 PSUs were related to other than power sector. Of these 97 working PSUs, 47 PSUs having arrears of accounts for less than three years as at the end of 30 September 2022. Based on the accounts and information furnished by PSUs, analysis of financial*

*performance of 34 working PSUs and financial position of 54 working PSUs have been covered in this Chapter.*

*During 2021-22, 34 PSUs registered an annual turnover of ₹ 86,101.03 crore, which was equal to 7.16 per cent of the GSDP of Andhra Pradesh.*

*As on 31 March 2022, the investment of the State Government in equity and long-term loans in 54 PSUs was ₹ 5,848.13 crore against total investment of ₹ 1,18,108.19 crore as on that date. The outstanding long terms loans of State Government in these PSUs as on 31 March 2022 increased to ₹ 881.81 crore from ₹ 593.46 crore during the year 2020-21.*

*Out of the 34 PSUs, 17 PSUs earned profits (₹ 1,483.96 crore), while 17 PSUs incurred losses (₹ 3,723.98 crore). As on 31 March 2022, the accumulated losses (₹ 26,531.43 crore) in 17 loss-making PSUs has completely eroded the net worth (₹ (-) 18,084.34 crore) of these PSUs. The maximum erosion of shareholders' funds was noticed in three State DISCOMs, where negative net worth of APSPDCL, APCPDCL and APEPDCL was ₹13,456.10 crore, ₹ 9,406.98 crore and ₹ 7,136.41 crore respectively as on 31 March 2022.*

*Out of the 97 working PSUs, Financial Statements for the year 2021-22 were received only from 14 PSUs up to 30 September 2022. Financial Statements of 44 PSUs were in arrears for three or more years. 21 PSUs have not even submitted their first accounts since their inception.*

*As a result of the audit of CAG during the period October 2021 to September 2022, Statutory Auditors of three PSUs revised their Audit Report. Significant comments highlighting inaccuracies in the Financial Statements impacting profitability by ₹ 25.54 crore and assets/ liabilities by ₹ 2,001.68 crore were issued.*

*(Chapter 5)*