

## EXECUTIVE SUMMARY

This Report on the finances of the Government of Uttar Pradesh (GoUP) intends to assess the financial performance of the State during the year 2021-22 and to provide the State Legislature with inputs based on audit analysis of the financial data. In order to put this analysis in a proper perspective, a broad comparison of targets envisaged by the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) Act, 2004 as amended from time to time, the Fourteenth and Fifteenth Finance Commission Reports and the Budget Estimates of the year 2021-22 have been attempted. The Report is structured in five Chapters:

Chapter I is an overview of the finances of the State at a glance.

Chapter II is based on the audit of the Finance Accounts and makes an assessment of the fiscal position of GoUP as on 31 March 2022. It provides an insight into trends in expenditure on interest payments, salaries and wages, pensions, capital expenditure and debt management.

Chapter III is based on the audit of 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 IV is an inventory of the GoUP's compliance to various reporting requirements and financial rules.

Chapters V discusses investment in State Public Sector Undertakings (PSUs), budgetary support to PSUs, position of submission of accounts by PSUs, non-functional PSUs and erosion of net-worth of PSUs.

### Audit Findings

#### Fiscal position of the State

The Gross State Domestic Product (GSDP) of Uttar Pradesh grew by 13.02 *per cent* during the year 2021-22 as compared to negative growth of (-)3.04 *per cent* during the year 2020-21. The improvement in economic situation led to increase in State's own tax revenue and share in Union taxes/duties with concomitant impact on fiscal parameters of the State. The State had a Revenue Surplus of ₹ 33,430.06 crore against Revenue Deficit of ₹ 2,367.13 crore during previous year. The Fiscal Deficit during 2021-22 also came down to ₹ 39,286.42 crore from previous year's ₹ 54,622.11 crore.

The fiscal deficit of the State during the year 2021-22 was contained at 2.11 *per cent* of GSDP from previous year's 3.31 *per cent*. The ratio of total outstanding debt to GSDP (32.14 *per cent*) during the year 2021-22 was also less than the previous year (33.91 *per cent*).

Goods and Services Tax (GST) Compensation is the revenue of the State Government under GST (Compensation to States) Act, 2017. In addition to receiving the GST compensation of ₹ 8,299.42 crore as revenue receipts during the year 2021-22, State Government also received debt receipts (back-to-back loan) of ₹ 8,139.94 crore from GoI in lieu of GST compensation shortfall due to inadequate balance in GST Compensation Fund. The debt servicing of this loan would be done from the collection of cess in the GST Compensation Fund and hence, the repayment obligation will not be met from the other resources of the State. Due to this arrangement, the revenue surplus

of ₹ 33,430.06 crore and fiscal deficit of ₹ 39,286.42 crore during the year 2021-22 may be read in conjunction with debt receipts of ₹ 8,139.94 crore in lieu of GST compensation.

*(Paragraphs 1.1.1, 1.4.1 and 1.5)*

### **Sources and Application of Funds**

Revenue Receipts of ₹ 3,71,011 crore during the year 2021-22 consists of Own Tax Revenue (₹ 1,47,368 crore), Non-Tax Revenue (₹ 11,436 crore), Share of Union Taxes and Duties (₹ 1,60,358 crore) and Grants-in-aid from GoI (₹ 51,849 crore). State's Revenue Receipts was 11.31 *per cent* less than Budget Estimates 2021-22 due to shortfall of 20.92 *per cent* in Own Tax Revenue, 55.01 *per cent* in Non-Tax Revenue, 40.52 *per cent* in Grants-in-aid from GoI, however, Central Transfer of Taxes was higher by 34.31 *per cent*.

As compared to previous year 2020-21, State witnessed overall increase of 22.91 *per cent* in Own Tax Revenue during 2021-22 mainly due to increase in receipts of State Goods and Services Tax, State Excise, Taxes on Sales, Trade, etc., Stamps and Registration Fees, Taxes on Vehicles. State's own tax revenue buoyancy was 1.76 during the year 2021-22 which was indicative of recovery in economy after adverse impact of Covid-19 on the State's economy that led to negative growth rates of GSDP as well as own tax revenue during the year 2020-21.

During the year 2021-22, transfers from GoI (Tax Devolution and Grants-in-aid) was 29.05 *per cent* higher (₹ 47,774 crore) as compared to the year 2020-21 and it constituted 57.20 *per cent* of Revenue Receipts of the State. The receipts under State's share of Union taxes and duties increased by ₹ 53,671 crore (50.31 *per cent*) as compared to year 2020-21. However, Grants-in-aid from GoI decreased by 10.21 *per cent* (₹ 5,897 crore) in the year 2021-22 over the previous year.

*(Paragraphs 2.3.1, 2.4.1, 2.4.2.1, 2.4.3, 2.4.3.1 and 2.4.3.2)*

Revenue expenditure (₹ 3,37,581 crore) continued to be the dominant component of the total expenditure. However, its share decreased from 86.77 *per cent* in the year 2017-18 to 82.09 *per cent* in the year 2021-22. Committed expenditure (₹ 2,02,126 crore) on salary, wages, pension and interest payments was 54.48 *per cent* of revenue receipts and 59.87 *per cent* of Revenue Expenditure. Financial assistance of ₹ 1,00,845.44 crore was provided by the State Government to Local bodies and other grantee institutions by way of grants-in-aid during the year 2021-22, which was 1.98 *per cent* higher as compared to the year 2020-21. State Government also devolved State Finance Commission grants to Local Bodies. There was 16.13 *per cent* increase in the devolution of State Finance Commission grants to Local Bodies during 2021-22 as compared to 2020-21.

*(Paragraphs 2.7.1, 2.7.2, 2.7.4, 2.7.6 and 2.7.7)*

Capital expenditure (₹ 71,443 crore) increased by 36.77 *per cent* during the year 2021-22 as compared to the year 2020-21. The percentage of State's capital expenditure to Total Expenditure increased in the year 2021-22 as compared to the year 2017-18 and it was higher than All India average of General Category States (i.e., States other than North Eastern and Himalayan States) during the year 2021-22.

*(Paragraphs 2.7.8 and 2.7.9)*

### **Consolidated Sinking Fund**

The State Government constituted (March 2020) Consolidated Sinking Fund as an amortisation fund for redeeming outstanding liabilities, which came into force from the year 2020-21. The Fund is administered by Reserve Bank of India. According to the guidelines of the Fund, the State Government may contribute to the Fund at least 0.50 *per cent* of the outstanding liabilities as at the end of the previous year. During the year 2021-22, the State Government contributed ₹ 2,000 crore as against stipulated contribution of at least ₹ 2,734.32 crore in view of outstanding liabilities of ₹ 5,46,864.94 crore at the end of the year 2020-21. This short contribution of ₹ 734.32 crore could not become the part of Consolidated Sinking Fund investment during the year 2021-22.

#### **Recommendation**

*The State Government should ensure that annual contribution to the Consolidated Sinking Fund is at least 0.50 per cent of the outstanding liabilities at the end of the previous year as provided under the Consolidated Sinking Fund Scheme so that adequate balance would be available in the Fund for its further investment by the Reserve Bank of India and for future redemption of outstanding liabilities.*

**(Paragraph 2.8.2.1)**

### **Depreciation Reserve Fund**

The State Government created (March 2005) the Uttar Pradesh Public Works Department Depreciation Reserve Fund to purchase plant and machineries for renewal and replacement of unserviceable plant and machinery, carrying out special repair of plant and machineries and purchase of plant and machineries with latest technology. During the period 2021-22, State Government charged ₹ 68.84 crore on works as contribution to Depreciation Reserve Fund and transferred it as non-tax revenue of the State. Against this, only ₹ 20.00 crore was transferred to the Fund which led to increase in revenue receipts by ₹ 48.84 crore without actual cash receipt. Besides, the Fund had a negative balance of ₹ 6.11 crore at the end of the year 2021-22 due to excess of disbursement over available balances.

#### **Recommendation**

*The State Government should transfer the full amount charged on works for Depreciation Reserve Fund to this Fund. Further, State Government should immediately regularise the negative balance under Depreciation Reserve Fund.*

**(Paragraph 2.8.2.2)**

### **State Disaster Response Fund (SDRF)**

As on 31 March 2022, SDRF had a balance of ₹ 3,005.59 crore. However, State Government had not invested the accretion to the Fund in the manner as laid down in the SDRF guidelines. The State Government also did not credit interest of ₹ 74.99 crore for the year 2021-22 on uninvested balances of the Fund.

#### **Recommendation**

*The State Government should invest the balances under SDRF in the manner prescribed in the SDRF guidelines and also remit the accrued interest to the Fund.*

**(Paragraph 2.8.2.3)**

### **Contingent Liabilities – Status of Guarantees**

There was an outstanding guarantee of ₹ 1,74,218.42 crore at the end of the year 2021-22 given by the State Government in respect of 28 entities, viz., statutory corporation, Government Companies and other institutions for borrowings by them. In order to sudden discharge of State's obligation on guarantees, the State Government was required to create a Guarantee Redemption Fund as per the recommendations of XII Finance Commission. However, State Government has not created a Guarantee Redemption Fund.

#### **Recommendation**

*The State Government should create the Guarantee Redemption Fund as per the recommendations of XII Finance Commission.*

*(Paragraphs 2.8.2.4 and 2.9.5)*

### **Debt Sustainability**

Open Market Loans had a major share (65.48 per cent) in the total fiscal liabilities of the State. Debt Stabilisation was negative during the years 2019-21. However, it was positive during 2021-22 due to the higher growth rate of GSDP as compared to average interest rate on public debt.

*(Paragraphs 2.9.1 and 2.9.4)*

### **Excess expenditure requiring regularisation**

Excess disbursements of ₹ 32,533.46 crore under 104 Grants and 48 Appropriations pertaining to the years 2005-06 to 2020-21 are yet to be placed before State Legislature for regularisation. This is in violation of Articles 204 and 205 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

#### **Recommendation**

*The State Government should ensure that all the existing cases of excess expenditure are placed before the State Legislature for regularisation in term of the provisions contained in Article 205 of the Constitution.*

*(Paragraphs 3.2.1)*

### **Misclassification of expenditure**

Misclassification of expenditure between Revenue as Capital and Capital as Revenue were noticed in a number of cases during the year 2021-22. The combined impact of misclassification of expenditure resulted in overstatement of revenue surplus by ₹ 130.49 crore.

#### **Recommendation**

*Classification of some expenditure items as Capital or Revenue nature included in certain Object heads, as pointed out in paragraph 3.2.2, needs review and redressal to align it with UP Budget Manual (UPBM).*

*(Paragraph 3.2.2)*

### **Savings**

The overall savings of ₹ 1,52,626.00 crore was 25.37 per cent of total provision, which was mainly under Revenue Voted (22.27 per cent) and Capital Voted (41.89 per cent) sections. The budgetary provisions increased

consistently during the last five years (2017-22) but these increases have not resulted in higher expenditure, which has witnessed a fluctuating trend over the years. In 28 cases involving 24 grants, there was persistent savings (₹ 100 crore and above) during the last five years indicating wide gap between planning and execution.

### **Recommendation**

*The Finance Department should review the reasons due to which the provisions under various Grants/Appropriations remained unutilised and take steps to make more judicious budget provisions in future years.*

**(Paragraphs 3.3.1, 3.3.2 and 3.3.4)**

### **Unnecessary Re-appropriation**

In 70 sub-heads involving 32 Grants, further augmentation of fund was made through re-appropriation of ₹ 818.32 crore. However, re-appropriation proved unnecessary, as in each case, expenditure was within the total budget provision before re-appropriation under these sub-heads. This was indicative of absence of adequate justification for resorting to re-appropriation under these Grants.

### **Recommendation**

*Re-appropriations should be based on careful assessment of fund requirements. Finance Department may advice line departments to improve accuracy in cost estimation of Schemes/Projects at the time of submitting Revised Estimates in order to optimise utilisation of funds.*

**(Paragraph 3.3.6)**

### **Rush of expenditure**

Rush of expenditure in the last month of the financial year is against the principles of sound management of public funds. No specific instructions have been given in UPBM to prevent rush of expenditure. In two Grants, 50 per cent and above expenditure of their total budgeted provisions were incurred in the last month of the financial year 2021-22, i.e., March 2022.

### **Recommendation**

*The Government may consider issuing guidelines to control rush of expenditure towards the closing months of the financial year especially in the month of March in order to maintain a steady pace of expenditure.*

**(Paragraph 3.3.7)**

### **Surrender of Savings**

UPBM provides that the Controlling Officers should surrender all final Savings to the Finance Department by 25<sup>th</sup> March. However, out the total savings of ₹ 1,52,626.00 crore, ₹ 117.09 crore was surrendered before 25 March 2022 and ₹ 7,843.86 crore was surrendered on the last day of financial year. Remaining savings of ₹ 1,44,665.05 crore were lapsed. Further, in four cases involving four Grants as against saving of ₹ 737.63 crore, ₹ 789.43 crore was surrendered resulting in excess surrenders of ₹ 51.80 crore during the year 2021-22.

### **Recommendation**

*The Finance Department should monitor trend 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 lapse of allocations.*

***(Paragraph 3.3.9)***

### **Government receipts kept out of Government Accounts**

The sums collected against labour cess are being deposited directly in bank accounts of U.P. Building and Other Construction Workers Welfare (UPBOCW) Board without bringing it into Government Accounts. In the absence of accounting of cess through Government Accounts, it was not ascertainable from the accounts of the State Government as to how much money was collected on account of cess, fee, etc., and how much money was transferred to the Board by various Cess Collectors. As per provisional data provided by the Board, ₹ 3,977.53 crore was available with the Board as on 31 March 2022 and the expenditure on welfare of workers ranged from 4.45 to 26.63 per cent of available funds covering 5.55 to 31.26 per cent of registered workers during the period 2017-22.

#### ***Recommendation***

*Sums collected against labour cess by UPBOCW Board should be part of Public Account of the State and from there it may be transferred to the Board Account. UPBOCW Board should fulfil its mandate of improving the working condition of building and other construction workers and providing adequate financial assistance to them.*

***(Paragraph 4.1.1)***

The State Government did not constitute the State Electricity Regulatory Commission Fund as required under Electricity Act, 2003. Receipts of ₹ 121.30 crore of the Uttar Pradesh Electricity Regulatory Commission were kept outside the Public Account of the State.

#### ***Recommendation***

*The State Government should constitute the State Electricity Regulatory Commission Fund and credit the fund balance in the Public Account of the State.*

***(Paragraph 4.1.2)***

### **Extra-budget borrowings through State owned PSUs/Authorities**

The State Government resorted to extra-budget borrowings through State owned PSUs/Authorities for meeting expenditure having implication on debt parameters of the State. Since these extra-budget borrowings do not form part of the Debt-Stock of the State, the debt position as reflected in Finance Accounts does not depict actual debt position. As a result, Debt-stock increases by ₹ 19,495.61 crore and stood at ₹ 6,32,451.94 crore as against ₹ 6,12,956.33 crore reported at the end of the year 2021-22.

#### ***Recommendation***

*The State Government should avoid extra-budget borrowings and credit all loans taken by PSUs/ Authorities on behalf of State Government but serviced by the State Government, to the Consolidated Fund.*

***(Paragraph 4.2)***



### **Undischarged liabilities in Defined Contribution Pension Scheme**

The State Government did not remit ₹ 440.62 crore for the Defined Contribution Pension Scheme in respect of State Government employees to the designated fund manager for its further investment during the year 2021-22. As a result, non-remitted fund did not yield any value appreciation as it could not become the part of corpus of investment of the subscribers. Further, State Government did not furnish the balances in respect of employees of aided educational institutions and autonomous bodies.

#### ***Recommendation***

*The State Government should transfer the entire amount of Defined Contribution Pension Scheme to the designated fund manager through the National Securities Depository Limited (NSDL)/Trustee Bank so that the un-transferred amount could become the part of corpus of investment of the subscribers and yield value appreciation.*

**(Paragraph 4.3)**

### **Uttar Pradesh Road Transport Accident Relief Fund**

The State Government did not establish Uttar Pradesh Road Transport Accident Relief Fund (UPRTARF) for the purpose of providing relief to the passengers or heirs of such passengers or other persons suffering casualty, as mandated by the Uttar Pradesh Motor Vehicle Taxation Act, 1997. As a result, a sum of ₹ 759.85 crore has not been credited to UPRTARF during the period 2015-22.

#### ***Recommendation***

*Being the statutory requirement, the Government should create the 'Uttar Pradesh Road Transport Accident Relief Fund' so that the fund could be utilised for benefit of the affected persons.*

**(Paragraph 4.4)**

### **Delay in submission of Utilisation Certificates (UCs)**

There were 40,823 UCs aggregating ₹ 18,362.56 crore outstanding as on 31 March 2022 for grants-in-aid released during the period 2001-02 to 2020-21 (up to September 2020). In the absence of UCs, there is no assurance that moneys disbursed have been used for the purposes for which they were sanctioned/authorised by the Legislature. Moreover, high pendency of UCs was fraught with the risk of embezzlement, diversion and misappropriation of funds.

#### ***Recommendation***

*The Government may ensure timely submission of utilisation certificates by the departments in respect of the grants-in-aid released for specific purposes and all pendencies may be reviewed before release of fresh grants to defaulting grantees.*

**(Paragraph 4.6)**

### **Abstract Contingent (AC) Bills**

In violation of codal provisions for adjustment of AC bills by the end of next month of drawal, 1,089 AC bills involving advance of ₹ 18.39 crore were pending for adjustment as on 31 March 2022 which included 1,041 AC bills drawn up to the year 2020-21.

**Recommendation**

*The Finance Department should ensure that all controlling officer adjust Abstract Contingent bills within stipulated period, as required under the Rules.*

**(Paragraph 4.7)**

**Indiscriminate use of Minor Head-800 and Object Head-42**

A sum of ₹ 46,410.25 crore under 79 Major Heads on the expenditure side and under 52 Major Heads on the receipt side, ₹ 7,489.28 crore was recorded under minor head '800-Other Expenditure/Receipts' during the year 2021-22. The booking of large amounts under the Minor Head '800-Other Expenditure' affects the transparency in financial reporting. Further, expenditure of ₹ 21,529.26 crore was made under Object Head '42- Other Expenditure' which was 4.89 per cent of total expenditure of ₹ 4,39,963.23 crore under the Consolidated Fund of the State during the year 2021-22. The classification of large amounts under the Object Head '42- Other Expenditure' does not give a clear picture in financial reporting.

**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. Further, at object head level, indiscriminate use of object head 42-Other expenditure should be minimised.*

**(Paragraphs 4.9 and 4.10)**

**Submission of Accounts of Autonomous Bodies/ Authorities**

379 annual accounts of 57 Autonomous Bodies/Authorities (due up to 2021-22) for audit as on 30 June 2022 have not been submitted by the concerned entities. In the absence of annual accounts and their audit, proper utilisation of grants and loans disbursed to these Autonomous Bodies/ Authorities cannot be vouched.

**Recommendation**

*The Finance Department should consider evolving a system for regular review to expedite the process of compilation and submission of annual accounts by Bodies/Authorities/ Departmental Commercial Undertakings in order to assess their financial position.*

**(Paragraphs 4.14)**

**Pending cases of misappropriations, losses, thefts, etc.**

There were 135 cases of misappropriation, losses and theft involving an amount of ₹ 9.31 crore on which final action was pending as on 31 March 2022.

**Recommendation**

*The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.*

**(Paragraph 4.16)**



### **Stake of Government of Uttar Pradesh in State Public Sector Undertakings**

As on 31 March 2022, Uttar Pradesh had 114 State PSUs (93 Government Companies, 15 Government controlled other Companies and six Statutory Corporations) including 42 Non-functional PSUs under the audit jurisdiction of the Comptroller & Auditor General of India. Out of 42 non-functional PSUs, 13 PSUs are under liquidation while remaining 29 non-functional PSUs have closed their operation during the period from June 1990 to September 2019. The total investment of the State Government in these 114 PSUs was ₹ 1,61,953.64 crore in the form of equity of ₹ 1,56,354.90 crore and long-term loans of ₹ 5,598.74 crore. Further, State Government had investment of ₹ 753.97 crore in 42 non-functional PSUs (40 Government Companies and two Government controlled other Companies) in the form of equity (₹ 370.53 crore) and long-term loans (₹ 383.44 crore). Of these, significant investments were in Uttar Pradesh State Textile Corporation Limited (₹ 289.15 crore), Uttar Pradesh Cement Corporation Limited (₹ 193.05 crore) and U.P. State Yarn Company Limited (₹ 120.03 crore). Further, State Government provided budgetary support of ₹ 33.94 crore to two non-functional PSUs which had already closed their operation.

#### **Recommendation**

*The State Government may review the status of 29 non-functional PSUs which have closed their operation and invest cautiously in these PSUs.*

*(Paragraphs 5.1.3, 5.2, 5.2.1 and 5.2.2)*

### **Reconciliation with Finance Accounts of Government of Uttar Pradesh**

As on 31 March 2022, differences in equity, loans and guarantee existed in respect of 74 PSUs. These differences between the figures are persisting since last many years, though the issue of reconciliation was also reported in previous years SFAR.

#### **Recommendation**

*The Finance Department of GoUP and the respective PSUs should reconcile the differences in figures of equity, loans and guarantees outstanding as per records of the PSUs and as per the Finance Accounts of GoUP in a time bound manner.*

*(Paragraph 5.2.3)*

### **Arrears of accounts**

Out of 72 functional State PSUs, only 11 PSUs had submitted their annual accounts for the year 2021-22 and remaining 61 PSUs had arrears of 308 accounts. Out of 42 non-functional PSUs, 40 PSUs had arrears of 698 accounts. GoUP had provided ₹ 8,610.52 crore (Equity: ₹ 3,467.07 crore, Loan: ₹ 1,187.47 crore, Grants-in-aid: ₹ 3,542.47 crore and Subsidies: ₹ 413.51 crore) to 38 State PSUs during the period for which their accounts were in arrears.

#### **Recommendation**

*The Administrative Departments should strictly monitor and issue necessary directions to liquidate the arrears in accounts of the PSUs and take necessary steps to resolve the constraints in preparing the accounts of the PSUs.*

*(Paragraphs 5.3.2 and 5.3.2.4)*

