

EXECUTIVE SUMMARY

Based on the audited accounts of the Government of Uttar Pradesh for the year ending March 2012, this report provides an analytical review of the Annual Accounts of the State Government. The financial performance of the State has been assessed based on the Fiscal Responsibility and Budget Management Act, 2004 and its Second Amendment Act, 2011, Budget Documents, Economic Review 2011-12, the Thirteenth Finance Commission Report and other financial data obtained from various Government Departments and Organisations. The report is structured in three Chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of Uttar Pradesh Government's fiscal position as on 31 March 2012. It provides an insight into trends in overall finances of the State, Actual Expenditure *vis-à-vis* Budget Estimates, Committed Expenditure, Borrowing Pattern, besides a brief account of Central Funds transferred directly to the State Implementing Agencies through off-budget route.

Chapter II is based on audit of Appropriation Accounts and it gives the grant-by-grant description of appropriations, preparation of Budget Estimates and the manner in which the allocated resources were managed by the service delivery Departments.

Chapter III is an inventory of Uttar Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendix of additional data collected from several sources in support of the findings. *Appendix 4* at the end gives a glossary of selected items related to State economy including additional data, as used in this report.

Audit Findings and Recommendations

Performance of the State: The Government had Revenue in surplus and at the same time it contained the Fiscal Deficit to below three *per cent* of GSDP and the Total Liability below 46.9 *per cent* of GSDP at the close of the financial year 2011-12 as envisaged in FRBM Act, 2004 and Second Amendment Act, 2011. *The Government should monitor Receipts and Expenditure continuously for ensuring adherence to the Act ibid.*

Revised Estimates and Actuals: There had been wide variations in the Revised Estimates and the Actual Expenditure due to lesser expenditure from what was estimated in the Revised Budget 2011-12, leading to improvement in key deficit indicators. *Adequate measures be initiated by the Government in regard to fiscal management and continuous monitoring in order to bridge the gap between the wide variations in the Revised Estimates and Actual Expenditure.*

Revenue Receipts: The Revenue Receipts increased by 18 *per cent* during 2011-12 over the preceding year mainly due to increase in Tax Revenue (28 *per cent*) and increase in Share of Union Taxes (16 *per cent*). However, the Revenue Receipts of ₹ 1,30,869 crore were close to the Revised Budget Estimates (₹ 1,37,622 crore). Tax Revenue of ₹ 52,613 crore which is a major constituent of

the Revenue Receipts was above the projections made by the Thirteenth Finance Commission (₹ 41,811 crore) by ₹ 10,802 crore. The Non-tax Revenue (₹ 10,145 crore) was below the projections made in the Revised Estimates (₹ 13,560 crore) by ₹ 3,415 crore (25 per cent) but was above the normative assessment made by the Thirteenth Finance Commission (₹ 8,484 crore) by ₹ 1,661 crore (20 per cent).

Revenue Expenditure: During 2011-12, the Revenue Expenditure increased by 15 per cent (₹ 16,209 crore) over 2010-11. Within the Revenue Expenditure, the Plan Expenditure increased marginally by ₹ 1,576 crore (seven per cent) over the previous year whereas the Non-plan Revenue Expenditure increased by ₹ 14,633 crore (17 per cent). A marginal increase under Plan Expenditure shows a slow growth of infrastructure and service network of the State. The Revenue Expenditure as a percentage of Total Expenditure increased from 83 per cent to 84 per cent during the current year. The Committed Expenditure on Salaries, Pensions, Interest Payments and Subsidies consumed a major part of Non-plan Revenue Expenditure during 2011-12. *The Government should carry out fiscal consolidation based on avoidance of un-productive Expenditure and at the same time ensure sustainable and viable service delivery.*

Resource Mobilisation: There had been an increasing trend in generation of State's own Revenues all along the period 2007-12. Tax Revenue/Gross State Domestic Product ratio remained constant around seven per cent during 2007-11, but it exceeded seven per cent during the current year. The Non-tax Revenue-GSDP ratio substantially decreased from 2.77 per cent in 2009-10 to 1.47 per cent in 2011-12.

Efficiency of Expenditure Use: The share of Capital Expenditure to Total Expenditure decreased from 16 per cent in 2010-11 to 15 per cent in 2011-12 while the share of Revenue Expenditure to Total Expenditure increased from 83 per cent in 2010-11 to 84 per cent in 2011-12. *The Government should take appropriate expenditure rationalization measures and lay emphasis on provision of Core Public and Merit Goods.*

Review of Government Investments: The average return on Government's investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives was 0.06 per cent during the last three years, whereas its average interest outgo on its borrowings was 6.48 per cent during the corresponding period. This is clearly an unsustainable proposition. *The State Government should, therefore, seek better value for money in investments.*

Debt Sustainability: The Debt-GSDP ratio at 35 per cent at the end of 2011-12 was on lower side especially in view of the target of FRBM (Second Amendment) Act, 2011 to contain it to 42 per cent by the end of 2014-15. Nearly 91 per cent of borrowed funds were used for discharging Debt Liabilities in last three years. *The Government should ensure a well thought out debt repayment strategy to avoid the bunching of repayments.*

Revenue Surplus: The fiscal position of the State has shown improvement in 2011-12 relative to previous year. The Revenue Surplus increased by ₹ 3,476 crore and the Fiscal Deficit has reduced by ₹ 1,815 crore during the year

2011-12 over the previous year. There is a scope of improvement in Revenue Surplus and Fiscal Deficit by making efforts of recovery of cost of maintenance of the Irrigation Projects and timely completion of projects of Irrigation and making these a source of Revenue.

Oversight of Funds transferred directly by the Government of India to the State Implementing Agencies: The Government of India directly transferred substantial amount of funds (₹ 10,683 crore) to the State Implementing Agencies, which is fraught with the risk of their improper utilization by these agencies. *A system should be in place for ensuring proper accounting, regular updation and validation of funds directly transferred by the Government of India to the State Implementing Agencies.*

Financial Management and Budgetary Control: During 2011-12, an overall savings of ₹ 24,506.13 crore over the total Grants and Appropriations is indicative of inaccurate budgeting. The Departments of Urban Development, Planning, Women and Child Welfare, Education, Finance (Debt Services and Other Expenditure) etc. posted large savings persistently for the last five years. Excess expenditure of ₹ 13,474.10 crore for the period 2005-11 and ₹ 1,889.66 crore for the period 2011-12 requires regularisation under Article 205 of the Constitution of India. There were instances of unnecessary/inadequate supplementary provisions and excessive, unnecessary re-appropriations of funds. Cases of non-surrender of anticipated savings were also noticed. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management.

Preparation of Budget Estimates: The Government did not follow the provisions contained in the Budget Manual relating to budget preparation. There were instances of the violation of codal provisions of the Budget Manual. *The budgetary control mechanism should be strengthened in all Government Departments. The Government should also ensure that the codal provisions of the Budget Manual relating to the budget preparations are scrupulously followed.*

The Outcome of the Eleventh Five Year Plan Outlay, Allotment and Expenditure: Various programmes/ schemes which were planned during the Eleventh Five Year Plan (2007-12) could either not come up or were incomplete at the end of the Plan period due to delay in execution of contracts and approval of the projects etc.

Financial Reporting: The Government's compliance with various Financial Rules and Procedures was deficient. Utilisation Certificates in respect of huge amounts (₹ 20,830 crore) were not obtained from the grantees. A large number of cases of misappropriations etc. were pending. An amount of ₹ 1,334 crore was retained in the Personal Deposit Account as on March 2012. Detailed Contingency bills against Abstract Contingency bills amounting to ₹ 157 crore were awaited.