Executive Summary

1 Background

Government of Andhra Pradesh enacted the "Fiscal Responsibility and Budget Management (FRBM) Act" in October 2005, setting out a reforms agenda through a fiscal correction path in the medium term with the long-term goal of securing growth and stability for the State economy. The State Government's commitment to carry forward these reforms is reflected in various policy initiatives announced in the subsequent budgets. While the benefits of FRBM legislation have been realized to a large extent in terms of reduction in major deficit indicators etc., the State Government's switchover to VAT, introduction of New Pension Scheme, ceiling on Government guarantees and a host of other institutional and sectoral reform measures are expected to facilitate building up the 'fiscal space' needed for improving the quality of public expenditure and promote fiscal stability.

2 The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ended March 2013, this report provides an analytical review of the finances of the State Government. The report is structured in three Chapters.

Chapter 1 *is based on audit of Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2013. It provides an insight into trends, among others, in State Government's resources and their application, developmental expenditure, borrowing pattern, sustainability of debt etc., besides a brief account of central transfers to the State Government as well as the implementing agencies through off-budget route. It also assesses the adequacy of the State's fiscal priorities*.

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 the service delivery departments.*

Chapter 3 *gives an overview of the State Government's compliance with various reporting requirements and financial rules.*

The report also has an appendage of additional data collated from several sources in support of the findings.

3 Audit findings

3.1 Fiscal consolidation

State Government has been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the seventh consecutive year during 2012-13 and the fiscal deficit was within the ceiling prescribed by the FRBM Act. The Government is yet to work out its liability on account of its contribution (as also that of

the employees) to the Contributory Pension Fund scheme from the inception of the scheme in September 2004. The interest payable on the amounts that have been lying in the Fund without transfer to NSDL/Trustee Bank has also not been estimated and accounted for. The State has brought down the total liabilities to 25.69 per cent of the GSDP against a ceiling of 28.90 per cent prescribed in the FRBM Act for the year 2012-13.

Revenue receipts registered a growth of over 10.98 per cent (₹10,276 crore) during the current year over the previous year due to growth in own tax and non-tax revenue. Revenue expenditure increased by 13.59 per cent (₹ 12,287 crore) over the previous year due to increase in both plan and non-plan expenditure.

While capital expenditure (₹ 15,149 crore) increased by about 10.40 per cent, its ratio to total expenditure stood at 12.44 per cent. It was also not up to the level envisaged in the Macro Economic Framework Statement (₹ 19,973 crore) for the year. Capital works/ projects in irrigation and roads sectors were not completed on time, which led to cost escalation on these projects without fully achieving the desired benefits. The investment blocked in such incomplete works/projects as of March 2013 was ₹ 71,595 crore (previous year ₹ 49,516 crore).

Grants-in-aid from GoI decreased by ₹ 3,140 crore over the previous year, mainly under non plan grants (₹ 2,715 crore) due to non-compliance by the State with the conditionalities applicable for release of these grants.

Although the State Government accorded adequate fiscal priority to development expenditure during 2012-13, it did not ensure that the allocated funds were released fully for the intended purpose. State outlay on education (13.70 per cent) in particular, was behind that of the General Category States (17.23 per cent). Further, the share of capital expenditure to aggregate expenditure (12.44 per cent) was also lower in the State, compared to the other General Category States (13.23 per cent).

Return on investment in Companies/Statutory Corporations continued to be poor and the rate of return on investment was 0.65 per cent during 2008-13, while the rate of interest paid by the Government during the period was 7.60 per cent. The accounts of several of these companies/corporations have been in arrears and up to the year of accounts finalized, the accumulated losses of 14 entities alone amounted to ₹ 5,970 crore, with AP State Housing Corporation (₹ 3,617 crore) and AP State Road Transport Corporation (₹ 1,984 crore) leading the list.

The current level of recovery of loan is low, with the gap between disbursement (₹ 3,913 crore) and recovery (₹ 426 crore) showing only a slight improvement over the previous year. Finance Department did not maintain any centralized database of loans with entity wise information viz., loan ledgers, repayment schedules, monthly schedule of recovery, classification of NPAs etc. Finance Department did not obtain confirmation or acceptance of balances from statutory corporations, Government companies and other institutions to whom loans have been advanced. In fact, confirmation of balances on loan amount of ₹ 12,148 crore was yet to be received from the entities, who were the recipients of these loans.

(Chapter 1)

3.2 Financial Management and Budgetary Control

Budgetary assumptions were unrealistic and expenditure monitoring and control mechanism was weak during the year. The entire supplementary provision (₹10,990 crore) proved unnecessary, as the actual expenditure (₹1,30,704 crore) incurred was less than the original budget provision (₹ 1,46,243 crore). The overall saving (₹26,528 crore) stood at 17 per cent of the budget mainly due to non-release of budgetary orders (BROs), non-release of administrative sanctions, freeze orders by Government, non-receipt of requisition from unit offices, non-filling up of vacancies, slow progress/postponement of works and non-passing of bills by PAOs/DTOs.

Despite flagging the issue repeatedly, excess expenditure of ₹ 276 crore was incurred during 2012-13 without Legislative authorisation. Regularisation of such expenditure since 2004-05 amounting to ₹ 2,876 crore was yet to be carried out by Government by taking Legislative approval.

Several policy initiatives taken up by Government were either unfulfilled or were partially executed due to non-approval of scheme guidelines/modalities, non-commencement of works for want of administrative sanction, non-release of budget, parking of funds in Banks/FDRs etc.

State Government's allocation for Special Component Plan for SCs (SCP) and Sub Plan for STs (TSP) ranged between 8-10 per cent and 3-4 per cent respectively which was below the mandatory allocation of 16.2 and 6.6 per cent respectively. Further, out of the allocation, Government could spend only about 58 to 71 per cent and 55 to 72 per cent under SCP and TSP respectively.

There were differences in figures between the Finance Accounts and the balance sheets of the PSUs in respect of equity, loans and outstanding guarantees given by Government, especially with regard to the PSUs in Power sector. Government equity in the PSUs was ₹2,925.35 crore less as per the Finance Accounts when compared to the PSUs' accounts, while it was ₹ 2,697.96 crore more in respect of loans given by the Government to these PSUs. The outstanding guarantees as per Finance Accounts was less by ₹4,393.97 crore compared to the accounts of the PSUs. Further, a total outstanding receivable amount of ₹ 13,129 crore from the State Government as of March 2012 (from 2008-09 onwards) towards subsidy for high cost power was found in the accounts of four power distribution companies.

(Chapter 2)

3.3 Financial reporting

Non submission of UCs by State Government to GoI and lower tiers of government to the State Government for funds released to them for implementation of specific socio-economic developmental programmes and delay in submission of annual accounts for audit by several State autonomous bodies/institutions reflect violation of established rules and regulations. Unspent balances lying in PD accounts, delay in submission of DC bills for almost a decade and non-maintenance of proper accounting records not only

delay/deprive delivery of the intended benefits to the targeted population, but also render the system vulnerable to possible frauds and embezzlement of public funds.

Operation of omnibus Minor Head '800' for recording receipts as well as expenditure affected transparency in financial reporting. Adverse balances under Debt, Deposit and Remittance and Suspense heads of account, non-lapsing of amounts under lapsable deposits, non-furnishing of Schedule of Settlement by the Treasuries/PAOs, non-receipt of clearance memos from RBI etc., indicate control deficiencies and result in understatement of Government's receipts and payments. Outstanding balances under inoperative PD accounts and DDR heads for long periods reflect gap in the monitoring mechanism.

Non-reconciliation of expenditure and receipts and non-submission of certificates of assurance by the CCOs with regard to their adherence to rules and regulations and conformity with budgetary provisions point to inadequate control mechanism for risk management in State Government. Non-furnishing of 4,583 cheques for an amount of ₹ 327 crore by the treasuries and absence of over 94,420 supporting vouchers for an expenditure of ₹5,841 crore deserves serious attention and raises concerns about quality of the accounts.

(Chapter 3)