

# Executive Summary

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## Background

The Government of Andhra Pradesh enacted the “Fiscal Responsibility and Budget Management (FRBM) Act” in October 2005 as recommended by the Twelfth Finance Commission (TFC), setting out a reform agenda through a fiscal correction path in the medium term with the long-term goal of securing growth stability for the State economy. The State Government’s commitment to carry forward these reforms is largely reflected in certain 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 should facilitate building up the ‘fiscal space’ needed for improving the quality of public expenditure and promote fiscal stability.

The Comptroller and Auditor General of India has been commenting on the State finances as part of the Audit Report on the Government of Andhra Pradesh (Civil) every year. Since the Audit comments on State finances remained camouflaged in the large body of audit findings on compliance and performance audits, a stand alone report on State Government finances was considered appropriate. Accordingly, from the report year 2009 onwards, a separate volume titled “Report on State Finances” is being presented.

## The Report

Based on the audited accounts of the Government of Andhra Pradesh for the year ending March, 2011, this report provides an analytical review of the Annual Accounts 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 Andhra Pradesh Government’s fiscal position as on 31 March 2011. It provides an insight into trends in committed expenditure, borrowing pattern, etc., besides a brief account of central funds transferred directly to the State Implementing Agencies through off-budget route. It also assesses the adequacy of the State’s fiscal priorities to developmental, social sectors and capital expenditure.

**Chapter 2** is based on audit of Appropriation Accounts and gives a grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

**Chapter 3** is an inventory 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.

## Audit findings and recommendations

### Fiscal consolidation

The Government of Andhra Pradesh has largely been achieving the fiscal reform targets every year in post FRBM legislation period. The State registered revenue surplus for the 5<sup>th</sup> consecutive year during 2010-11 and the fiscal deficit was well within the ceiling prescribed by the FRBM Act. The State has done well to bring down the fiscal liabilities at the end of current year to 24.52 per cent of GSDP against a ceiling of 30.3 per cent prescribed under FRBM Act and 25 *per cent* recommended by the 13<sup>th</sup> Finance Commission by 2014-15.

Revenue receipts registered an impressive growth of over 25 *per cent* during the current year (₹ 16,318 crore) over the previous year due to growth in own tax and non tax revenue by ₹ 12,880 crore. However, there was also an increase in arrears of revenue (38 *per cent*) over the previous year. The growth in own tax revenue was due to increase in sales tax and state excise, and the growth in non tax revenue was due to increase in interest receipts and increased collections from non ferrous mining and metallurgical industries.

***The Government should ensure better tax compliance to improve its own tax revenue and reduce the arrears of revenue. It should also explore the possibilities of making certain State provided services like irrigation viable in medium to long term.***

Central Government has been transferring a sizeable quantum of funds directly to the State implementing agencies (₹ 12,174 crore during the year) for implementation of various flagship programmes in socio-economic sectors. As these funds are not routed through the State budget/State treasury system, Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. Funds flowing directly to the implementing agencies through off-budget route inhibit Fiscal Responsibility Legislation (FRL) requirements of transparency and escape accountability. There is no single agency monitoring the use of these funds and no data is readily available on the amount spent in any particular year on major flagship and other important schemes.

***The State Government needs to put in place an appropriate mechanism to ensure proper accounting and utilisation of the funds directly transferred by GOI to implementing agencies.***

Revenue expenditure increased by over 23 *per cent* (₹ 15,086 crore) over the previous year – both in plan and non-plan segments due to interest payments and increased assistance to local bodies.

Capital expenditure however, decreased by about 19 *per cent* (₹ 2,670 crore) and the ratio of capital expenditure to total expenditure fell significantly during the year. This was despite the Government's commitment while presenting budget during 2010-11 to increase the capital expenditure to ensure growth. The decrease in capital expenditure was mainly in major/ medium irrigation, roads and building sectors. There was also substantial

blocking up of funds (₹ 46,330 crore up to March 2011) on incomplete projects/works over the years, depriving the anticipated benefits to the targeted segments of population.

***Government should formulate an action plan expeditiously, to complete all the pending projects, especially irrigation projects within a specified timeframe, to ensure that the envisaged benefits accrue to the targeted beneficiaries. Also, Government should prioritize the areas that need capital expenditure, especially in socio-economic sectors.***

The State Government accorded adequate fiscal priority to development expenditure during 2010-11. However, funds earmarked for specific social sector activities were not always released on time/ not released at all, thereby negating the objective of allocating these funds.

***Government needs to re-prioritize the outlay in respect of social sector and ensure that funds are released based on approved outlays and spent for the purpose sanctioned.***

The current level of recovery of loans advanced by the State was extremely poor (5.19 per cent of disbursement during the current year). The rate of return on Government investment in various statutory corporations, companies, cooperatives etc. was also negligible at 0.47 per cent during the last five years, as against the average rate of interest paid during the same period (7.60 per cent) and has proved to be a drag on the finances of the State.

***The State Government needs to consider drawing up a roadmap for closure of loss making PSUs in non-core areas, in keeping with the recommendation of 13<sup>th</sup> Finance Commission.***

## **Financial management and budgetary control**

The State Government's budgetary processes have not been sound during the year, with errors in budgeting, lumpsum provisions made without clarity of purpose (only to be surrendered later), excess expenditure over allocation, expenditure without budget provision etc. No effort was made to analyse the areas where there were persistent savings and take necessary corrective action. Financial rules were flouted by several departments by drawing funds in excess of requirement, resorting to re-appropriations without proper explanations and expending without provision of funds.

Release of funds and surrender of substantial funds at the fag end of the year is a matter of concern, since funds could not be utilized fruitfully. Several developmental initiatives of the Government in social sector, especially, education sector have not borne fruit due to lack of proper monitoring/budget freeze etc.

***Government needs to adhere to budgetary processes and procedures, and financial rules scrupulously, to ensure that budgeting process is more transparent and result oriented. Efforts should be made by all the departments to submit realistic budget estimates, keeping in view the past trends in receipts and expenditure in order to avoid large scale saving/excess, re-appropriations and surrenders at the fag end of the year. Savings should be surrendered as and when anticipated without waiting till the end of the financial year.***

## Financial reporting

Internal controls within the State Government departments were not functioning as envisaged with regard to compliance with various rules and procedures instituted by the Government. Financial reporting cannot be accurate and reliable in the absence of compliance with the basic requirement of compilation of accounts by the Government undertakings and bodies and non-accountal/adjustment of large amounts drawn on abstract contingent bills by the departmental authorities. Further, classification of various important items of expenditure relating to subsidies, capital outlay on roads and bridges, special programmes for rural development, revenue receipts etc. under omnibus Minor Head – 800 affected the transparency in accounts of the State Government.

***Government needs to strengthen financial management and reporting, especially in areas such as timely compilation of accounts by Government undertakings and bodies, adjustment of funds drawn through AC bills by submitting the DC bills and correct classification of expenditure at the Minor Head level.***