EXECUTIVE SUMMARY

Fiscal situation of the State

Revenue receipts, revenue expenditure and capital expenditure have increased from 2012-13 to 2016-17 even after accounting for inflation and also as a percentage of GSDP.

(Paragraph 1.1.1)

State has not achieved revenue surplus and ratio of outstanding debt to GSDP as targeted in budget estimate and FRBM Act. Further, the ratio of fiscal deficit to GSDP is also above the target of budget estimates 2016-17, XIV FC and FRBM Act.

(Paragraph 1.1.2)

The primary deficit of the Government of Uttar Pradesh increased from ₹ 2,317 crore (2012-13) to ₹ 29,052 crore during 2016-17 indicating non-debt receipts were not sufficient to meet the primary expenditure of the State.

(Paragraph 1.1.2.2)

Resource mobilisation

Revenue receipts grew by ₹ 29,799 crore (13 *per cent*) over 2015-16 receipts, which was lower than the budget estimates (₹ 24,680 crore).

Revenue expenditure increased by ₹ 23,856 crore (11 *per cent)* over 2015-16, which was lower than the budget estimates (₹ 16,763 crore).

Capital expenditure increased by ₹ 5,366 crore (eight *per cent*) over 2015-16, which was lower than the budget estimates (₹ 2,089 crore).

Recommendation: *The Finance Department should rationalise the budget preparation exercise, so that the persisting gap between the budget estimate and actuals is bridged.*

(Paragraphs 1.1.1 & 1.1.3)

Summary of important audit findings and recommendations:

Cost of collection of taxes

The cost of collection on sales, trade etc., which constitutes 45 *per cent* of the States own tax revenue is more than twice the all India average and also higher than that of neighbouring states of Bihar, Jharkhand and Madhya Pradesh. The State has had persistent shortfall of actual receipts of taxes against budget estimates.

Recommendation: *The Finance Department and the Sales Tax Department should analyse why the cost of collection of taxes on sales, trade etc., is nearly twice as high as the all India average and introduce measures to reduce the cost of collection.*

(Paragraph 1.2.2.2)

New Pension Scheme (NPS)

Details of pension contributions under the New Pension Scheme (NPS) from 2005 to 2008 are not available in the State Accounts, due to which, Audit has been unable to estimate whether the amounts actually due to be deducted from employees since the inception of the scheme have been deducted, fully matched with Government share, and transferred to NSDL. As against the employees' contribution of ₹ 2,830 crore from 2008-09 to 2016-17, the actual contribution by the State Government was ₹ 2,247 crore, resulting in short contribution of ₹ 583 crore. Against the total contribution of ₹ 5,660 crore (employees' share and Government share for the period 2008-09 to 2016-17), only ₹ 5,001.71 crore was transferred to NSDL, leaving a balance of ₹ 545.68 crore in the Public Account under MH 8342.

Further, employees' contributions (representing deductions from employees recruited on or after 1 April 2005) which had increased from ₹ 5.03 crore booked in 2008-09 to ₹ 636.51 crore in 2015-16, significantly dropped to ₹ 199.24 crore in 2016-17. This drop can only be attributed to irregular transfer of employees' contributions elsewhere than the Public Account specified for NPS under MH 8342, and is required to be rectified immediately.

Recommendation: *The State Government should initiate action immediately to ensure that employees recruited on or after 1 April 2005 are fully covered under the New Pension Scheme from the date of their recruitment. This is to be done by ensuring that employees' deductions are fully deducted, fully matched by Government contributions, and fully transferred to NSDL in a timely manner.*

(Paragraph 1.3.4.1)

Adequacy of public expenditure

The ratio of development expenditure and economic services expenditure to aggregate expenditure was less than the average for the General category States.

(Paragraph 1.3.5.1)

Financial results of irrigation works

The Thirteenth and Fourteenth Finance Commissions had prescribed cost recovery rates of irrigation projects (revenue receipts as compared to revenue expenditure) for assessing the commercial viability of these projects. The gap in cost recovery on irrigation projects has improved over the past two years, but is still less than half the projections of the 13th and 14th Finance Commissions. It has to further improve in comparison with the other neighbouring States of Jharkhand, Madhya Pradesh and Chhattisgarh.

Recommendation: *The State Government may initiate measures to improve cost recovery on irrigation projects.*

(Paragraph 1.4.1)

Incomplete projects

Blocking of funds on incomplete works impinge negatively on the quality of expenditure. The Public Works Department (PWD) and Irrigation Department had 611 incomplete projects with cost over-run of ₹ 17,010 crore in 55 projects till date.

Recommendation: *The Public Works Department and Irrigation Department may evolve a mechanism to ensure timely completion of projects to minimise cost overrun.*

(Paragraph 1.4.2)

Investments and Returns and Loans advanced

During 2012-17 the State Government incurred a notional loss of ₹ 21,964 crore on account of difference between the Government's borrowing cost and the return on investment on working PSUs. The return on investment on non-working PSUs cannot be estimated.

Also, the State Government has incurred a notional loss of ₹ 1,170 crore on account of difference in the interest received on the loans advanced and that of Government incurred on its borrowings.

Recommendation: *The State Government should rationalise its investments and loans advanced to various entities such that the return on investment and loans at least matches the Government borrowing costs.*

(Paragraph 1.4.3 & 1.4.4)

Transactions under Reserve Funds

Out of 21 reserve funds (with a closing balance of ₹ 51,015.35 crore), 18 were operative and three reserve funds[1] were not operated during the period 2014-17. It was however observed that no investment of this huge balance of 18 operative funds was made during the last five years. It was also observed that in respect of the remaining three inoperative reserve funds, an amount of ₹ 45.20 crore under MH 8115-Depreciation reserve fund (₹ 44.42 crore) and MH 8223-Famine relief fund (₹ 0.78 crore) was invested decades before, but no interest thereon has been credited in the account.

Transfers into reserve funds and disbursement therefrom are effected through debit and credit entries under the appropriate revenue and expenditure heads under the Consolidated Fund. These represent actual cash transfers only if they impact the Reserve Bank Deposits (RBD) either directly or by way of investment. Since there was no actual cash outflow, these transactions depicted by GoUP against reserve funds are only book entries which violates the spirit underlying the creation and operation of reserve funds. Their only impact is to depict an unduly favourable Revenue Surplus and Fiscal Deficit position for the relevant years.

Nevertheless, these balances in the funds lying outstanding over the years represent huge liability of the State. Negative and debit balances against specific reserve funds need regularisation by appropriation from the Consolidated Fund.

[1] 8115-105-Depreciation Reserve Fund, 8121-111-Contingency Reserve Fund, 8223-102-Famine Relief Fund.

Recommendation: *The Finance Department should review the practice of treating transaction and balances under reserve funds as book entries and adhere to the principles of cash accounting by actual investment of balances with the Reserve Bank of India.*

(Paragraph 1.5.2)

Sinking Fund

The XII FC recommended creation of Consolidated Sinking Fund (CSF) by the State Governments, for amortisation of outstanding liabilities[2]. The guidelines of the Reserve Bank of India (RBI), which is responsible for administering the fund, stipulate a minimum annual contribution of 0.5 *per cent* of outstanding liabilities at the end of the previous financial year. Accordingly, the State Government was required to contribute ₹ 1,836.26 crore (0.5 *per cent* of ₹ 3,67,251.80 crore, i.e., the outstanding liabilities as on 31 March 2016) in 2016-17.

The State Government, however, has not taken any action to set up the CSF (subsuming the existing Fund) in terms of these guidelines[3].

During 2016-17 the State Government made a provision of ₹ 10,772.35 crore to Sinking Fund and transferred ₹ 4,145.61 crore to Revenue under the Consolidated Fund. The net impact of Sinking Fund transactions resulted in increasing the outstanding liabilities of the State to the extent of ₹ 6,627 crore.

Recommendation: *The State Government may consider accepting the recommendation of the XII FC and create a Consolidated Sinking Fund to be invested by RBI. Further, transfer out of the fund are not to be treated as Revenue Receipts. In any event, the State Government should ensure that the Fund balances are actually invested and are not mere book entries.*

(Paragraph 1.5.2.1)

Expenditure on State Roads and Bridges

The State Government has been making identical transfers and reverse transfers between MH 3054/ 5054 and MH 8225- Roads and Bridges Fund for many years. The purpose of creating Reserve Fund is nullified if the net effect of the transfers, year after year, is nil. Further, the fund had a negative opening balance of ₹ (-) 321.46 crore as on 31 March 2017 indicating excess of disbursement over receipts. This negative figure has been appearing from the accounts of 2014-15 onwards. The negative balance is to be regularised by appropriation from the Consolidated Fund.

Recommendation: *The Finance Department should examine the need to maintain the Reserve Fund on Road and Bridges under MH 8225- Roads and Bridges Fund and also immediately regularise the negative balance of ₹(-) 321.46 crore*

(Paragraph 1.5.2.2)

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[2] Defined as comprising Internal Debt and Public Account liabilities of the State Government.

[3] Unlike States like Andhra Pradesh, Gujarat, Karnataka, West Bengal, Telangana, Odisha and Jammu & Kashmir which have set up Consolidated Sinking Funds in terms of the guidelines.

State Disaster Response Fund (SDRF)

Contrary to GoI guidelines that the SDRF should be operated under the category "Reserve Funds bearing Interest", GoUP operates its SDRF under the category "Reserve Funds not bearing Interest". Further, the balances in the Fund being only book entries are not invested. Further, the interest of ₹ 19.08 crore for the year 2016-17 (at the rate of 7.5 *per cent* as the average of interest on Ways and Means Advances) had not been paid by the State Government. Consequently, the Revenue Expenditure for 2016-17 has been understated by ₹ 19.08 crore towards unpaid interest to the fund. The unpaid interest since the operation of SDRF represents the unaccounted liabilities of the State.

Recommendation: *The State Government should transfer the SDRF balances to MH 8121- General and Other Reserve Funds under the category "Reserve Funds bearing Interest" and remit to the Fund accrued interest as applicable to average of Ways and Means Advances interest rate by the RBI. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.*

(Paragraph 1.5.2.3)

Contingent Liabilities – Status of Guarantees

The State Government has not created any Guarantee Redemption Fund or framed any rules for fixing the ceiling on the guarantees to be given by the State Government as stipulated under the XII FC guidelines. The State Government was required to make minimum annual contributions of ₹ 298.27 crore (0.5 *per cent* of outstanding guarantee of ₹ 59,653.72 crore at the beginning of the year 2016-17) which was not done.

Two companies had not paid the guarantee fee of ₹ 0.92 crore that was due. Despite this, the GoUP extended financial assistance in 2016-17 to both the institutions in the form of equities and subsidies though the accounts of both the companies were in arrears from 2015-16 onwards.

Against the maximum amount of ₹ 15,690 crore guaranteed to U.P. Rajya Vidyut Utpadan Nigam Limited, the outstanding amount guaranteed (₹ 19,252 crore) exceeded by ₹ 3,562 crore. This contravenes the UPFRBM Act, which stipulated that guarantee could not be given in excess of maximum amount guaranteed.

Recommendation: *The State Government should create and operate the guarantee redemption fund as per the guidelines of XII FC and also ensure that guarantees to any institution do not exceed the maximum limits fixed. GoUP should also ensure that guarantee fees are realised promptly. The Government should stop financial support to these institutions which have not paid the guarantee fees and/or are also in arrears of accounts.*

(Paragraph 1.5.3)

Excess Expenditure

As per Rule 140 and 174 of the U.P. Budget Manual, any excess expenditure over a grant voted by the Legislature or over a charged appropriation constitutes a financial irregularity. However, it was observed that during 2016-17, there was overall excess expenditure of ₹ 6,917.60 crore. Further, it was noticed that the Public Works Department (PWD) incurred excess expenditure of ₹ 2,122.53 crore against three grants. The Finance Department itself failed to correctly estimate the expenditure under repayment of debt and consequently incurred excess expenditure of ₹ 4,794.78 crore during 2016-17.

Recommendation: *The Finance Department should ensure that no Departmental Controlling Officers, including the Finance Department itself, resorts to excess expenditure over the regular allocations approved by the State Legislature.*

(Paragraph 2.2.1)

Excess expenditure requiring regularisation

The State Government failed to get excess expenditure amounting to ₹ 24,144.20 crore covering 95 grants and 38 appropriations pertaining to the past decade (2005-16) regularised. During 2016-17, in five cases of grants/ appropriations amounting to ₹ 5,662.17 crore over and above the authorisation from the Consolidated Fund of the State were required to regularise.

Recommendation: *All the existing cases of excess expenditure need to be got regularised at the earliest and, in future, such un-voted expenditure may be completely stopped, except in case(s) of dire and extreme emergency, the cost of which cannot be met from the Contingency Fund.*

(Paragraph 2.2.2)

Savings

Savings of ₹ 43,036.89 crore occurred in 59 cases relating to 41 grants / appropriations exceeding ₹ 100 crore in each case. Savings under revenue voted head of account exceeding ₹ 500 crore occurred in 15 grants and under the capital (voted) head of account exceeding ₹ 500 crore occurred in six grants. In 22 cases involving 17 grants, there were persistent savings (₹ 100 crore and above) ranging between ₹ 102.54 crore and ₹ 3,300.96 crore during the preceding five years.

Recommendations: *All anticipated savings should be surrendered on time so that the funds can be utilised for other development purposes.*

(Paragraphs 2.2.3 & 2.2.4)

Advances from the Contingency Fund - Not recouped

An amount of ₹ 308.12 crore, drawn from the Contingency Fund during December 2016 to February 2017, was not recouped at the close of the financial year (March 2017). Further, out of the advance, ₹ 300 crore was given to U.P. Jal Nigam during December 2016 to January 2017 as an interest free loan to meet salary and retirement commitments. This does not constitute emergent and unforeseen expenditure and was also not recouped during the year in contravention to the Constitutional requirement and the U.P. Contingency Fund Rules.

Recommendation: *The State Government should ensure that no advances are drawn from the Contingency Fund except to meet expenditure of emergent and unforeseen nature.*

(Paragraph 2.2.11)

Rush of Expenditure

The State Government has not framed any rules regarding rush of expenditure. Further, GoUP issued sanction orders for ₹ 3,053.81 crore on a single day i.e., 30 March 2017 for different schemes such as Swachh Bharat Mission (₹ 80.82 crore) and grants-in-aid to gram panchayats (₹ 2,972.99 crore).

Recommendation: *The State Government should frame rules to ensure that budget provisions are not unutilised and should control rush of expenditure during fag end of the financial year.*

(Paragraph 2.2.12)

Personal Ledger Accounts (PLAs)/Deposit Accounts

Against the provisions of the Uttar Pradesh Budget Manual that all final savings must be surrendered to the Finance Department by 25 March, the PLAs of the State have a closing balance of ₹ 6,835.75 crore as 31 March 2017. Further, contrary to rules, GoUP failed to close 341 PD/PL accounts with no transactions for over three years.

State Government departments routinely transfer unspent amounts into PD/ PL accounts. Such practices violate Legislative intent, since the intention of the Legislature is that the funds approved by it for the financial year are spent during the financial year itself. The Finance Department, which is the custodian of public finances, however, has taken no action to curb such irregular practices or to recommend departmental action against concerned officials.

Recommendation: *The Finance Department is required to review all PD/ PL accounts and ensure that all amounts unnecessarily lying in these PD/ PL accounts are immediately remitted to the Consolidated Fund. Further, the Finance Department is required to reiterate the instructions contained in the financial rules and ensure that appropriate action is taken against departmental officers who fail to follow the rules.*

(Paragraph 3.1)

Building and Other Construction Workers (BOCW) Welfare Cess

The BOCW Welfare Board has not prepared accounts since inception (November 2009). Therefore, the authenticity of receipts and expenditure could not be verified by Audit. An amount of ₹ 3,194.96 crore, available with the Board as on March 2017, has been kept in bank accounts.

The Board does not have a fixed asset register, in the absence of which, the physical existence of the assets created and their location could not be verified.

Since the GoUP is yet to transfer ₹ 34.48 crore to the Board as of March, 2017, the revenue surplus of GoUP has been overstated and the fiscal deficit understated by this amount.

Orders of the Government (August 2012 and September 2016) to transfer the cess amount directly into the Bank account of the BOCW Welfare Board without bringing it into the Government account (Consolidated Fund of the State) was in violation of the principles of Government accounting. Consequently, it is not ascertainable as to how much money was collected by the Cess Assessment Officers and how much money was transferred to the Board.

Recommendation: *The U.P. BOCW Welfare Board should commence timely preparation of accounts and maintain relevant records to fulfil its mandate of improving the working conditions of building and other construction workers and providing adequate financial assistance to them. GoUP should also review its orders to transfer the cess directly to the bank account of the Board instead of through the Consolidated Fund.*

(Paragraph 3.2)

Transfer of additional stamp duty to Development Authorities and Housing Development Councils

GoUP has not opened a distinct sub head to account for the additional stamp duty. Consequently, it is not possible to assess if the entire additional stamp duty has been received and transferred to the concerned authorities etc. Orders (September 2015) of the GoUP routing the transfers through the Lucknow Development Authority increased the opacity.

Further, GoUP orders (September 2013) to transfer 25 *per cent* of the additional stamp duty to a Dedicated Urban Transport Fund contravenes the U.P. Urban Planning and Development Act which does not provide for any such apportionment.

Recommendation: *GoUP should ensure that the accounts fully and transparently capture the receipts and transfer of the additional stamp duty to the authorities/municipalities etc. specified under the U.P. Urban Planning and Development Act. GoUP should also review the Order transferring 25 per cent of the additional stamp duty to a Dedicated Urban Transport Fund which is against the provisions of the Act.*

(Paragraph 3.3)

Opaqueness in accounts

GoUP departments routinely operated minor head 800 which is to be operated only in rare cases. During 2016-17, ₹ 36,826.27 crore under receipts and ₹ 35,329.20 crore under expenditure was booked under minor heads 800 resulting in opaqueness of transactions.

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 and ensure that all such receipts and expenditure are in future booked under the appropriate head of account.*

(Paragraph 3.4)

Delay in Finalisation of accounts of PSUs/Corporations

The accounts of 56 working PSUs/ Corporations (230 accounts) and 36 non-working PSUs/ Corporations (527 accounts) are in arrears of one to 34 years. Despite this, the Finance Department has provided budgetary support to these PSUs, of which, ₹ 21,038.52 crore was provided in 2016-17 alone.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts, ensure that the accounts are made current within a reasonable period, and stop financial support in all cases where accounts continue to be in arrears.*

(Paragraph 3.6)

Dividend not declared

Contrary to the State Government's policy that all profit earning PSUs should pay a minimum return of five *per cent* on the paid up share capital contributed by the State Government, 10 profit earning PSUs did not declare dividend of ₹ 507.48 crore.

Recommendation: *The State Government should ensure that the profit earning PSUs deposit the specified dividend invariably into the Government account at the close of the year.*

(Paragraph 3.7)

Non-submission of Utilisation Certificates

Departments of GoUP have failed to ensure submission of Utilisation Certificates (UCs) on grant-in-aids of ₹ 97,906.27 crore. In many cases, the same recipients continue to receive further grants from the same departments, even while earlier UCs are pending.

Recommendation: *The Finance Department should prescribe a time frame within which administrative departments releasing grants collect UCs pending for more than the time stipulated in the grant orders and also ensure that till such time, administrative departments release no further grants to defaulting grantees.*

(Paragraph 3.11)

Outstanding Detailed Contingent bills

The Finance Department, which is required to ensure that abstract contingent (AC) bills are not drawn merely to exhaust the budget, itself drew AC bills valued at ₹ 32.63 crore in the last four days of the financial year.

Recommendation: *The Finance Department should ensure that all controlling officers adjust in a time bound manner, all AC bills pending beyond the* *prescribed period, and also ensure that AC bills are not drawn merely to avoid lapse of budget.*

(Paragraph 3.12)

Non-payment of interest on Deposits

The Finance Department has failed to book interest on deposits. Such un-booked interest, overstated the Revenue Surplus by ₹ 256.92 crore in 2016-17 alone.

Recommendation: *The Finance Department should review the balances under MH 8336 to 8342 for appropriate action to book interest in respect of all interest bearing deposits.*

(Paragraph 3.13)

Apportionment of balances as on reorganisation of the State

The State Government is yet (since November 2000) to apportion ₹ 8,757.37 crore under Deposits and Advances between the successor States of Uttar Pradesh and Uttarakhand.

Recommendation: *The State Government should expedite the apportionment of balances under Deposits and Advances (₹ 8,757.37 crore) between the two successor States.*

(Paragraph 3.14)

Impact on Revenue Surplus and Fiscal Deficit

As analysed by Audit, the impact of incorrect booking/accounting of expenditure and revenue resulted in overstatement of revenue surplus by ₹ 677.83 crore and understatement of fiscal deficit by ₹ 608.75 crore. The impact of sinking fund transactions resulted in increasing the outstanding liabilities of the state by ₹ 6,627 crore.

(Paragraph 1.1.2 & 3.17)