Executive Summary

Fiscal situation of the State

Revenue Receipts (RR) and Revenue Expenditure (RE) have increased during the years 2015-16 to 2017-18, even after accounting for inflation. As a percentage of Gross State Domestic Product (GSDP), however, both RR and RE have decreased. The growth rate of RR and RE has decreased in 2017-18 in comparison to preceding year. Capital Expenditure (CE), which had increased in 2016-17, however, saw a decline in 2017-18.

(Paragraph 1.2)

The State registered a Revenue Surplus of ₹3,459 crore. The Fiscal Deficit was ₹26,700 crore. The Revenue Surplus, however, was overstated by ₹3,743.74 crore and the Fiscal Deficit was understated by ₹954.60 crore on account of misclassifications, non-contribution to statutory funds and classifying subsidies as loans. Effectively, there was a Revenue Deficit of ₹284.74 crore and Fiscal Deficit was ₹27,654.60 crore.

Fiscal Deficit (₹26,700 crore) was 3.55 *per cent* of GSDP (₹7,52,230 crore). Fiscal Deficit marginally exceeded the ceiling of 3.50 *per cent* fixed by the 14th Finance Commission. Outstanding Public debt to Gross State Domestic Product ratio was 19 *per cent.* This was within the ceiling of 22.82 *per cent* fixed by the 14th Finance Commission. The outstanding liabilities were 22.05 *per cent* of the GSDP, which was within the prescribed limit of 25 *per cent* as per Medium Term Fiscal Policy Statement (MFPS) of the State Government.

Primary Deficit (₹15,864 crore) in 2017-18 decreased by 41 *per cent* in comparison to preceding year (₹26,672 crore). Primary Deficit, though decreased, indicates that the non-debt receipts were not sufficient to meet Primary Expenditure.

(Paragraph 1.3.1)

Mobilisation and application of Resources

Revenue Receipts (₹88,824 crore) in 2017-18 increased by ₹6,006 crore (7.25 *per cent*) over 2016-17. They were, however, lower than the budget estimates by ₹24,259 crore.

Revenue Expenditure (₹85,365 crore) increased by ₹3,933 crore (4.83 *per cent*) over 2016-17. It was, however, lower than the budget estimates by ₹23,147 crore.

Capital Expenditure (₹23,902 crore) decreased by ₹9,469 crore (28 *per cent*) in comparison to 2016-17, which was, however lower than the budget estimates by ₹7,028 crore.

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

(Paragraphs 1.2 and 1.3.2)

Summary of important audit findings and recommendations

Efficiency in Tax Collection

The cost of collection of major taxes of the State decreased during the last three years indicating greater efficiency (measured as cost of collection of tax as a percentage of the tax collection).

(Paragraph 1.4.2.2)

Adequacy of public expenditure

Telangana fared favourably in its focus on Development Expenditure (₹84,006 crore) and Capital Expenditure (₹23,902 crore) in comparison to other General Category States. The State, however, lagged behind in the area of Education.

(Paragraph 1.5.4.1)

Committed Expenditure

The burden of committed expenditure measured as a percentage of Revenue Expenditure of the State, was steadily rising due to increase in interest payments (by 26 *per cent* over 2016-17) and pension payment (by 32 *per cent* over 2016-17). Greater reliance on market borrowings by the Government in the recent years has led to increase in liabilities on account of interest payments**.**

(Paragraph 1.5.2.1)

National Pension System

Government's contribution to National Pension System was short by ₹49.87 crore in comparison to employee's contribution. Such short contributions also existed in 2016-17 (₹71.91 crore) and in 2014-15 (₹20.01 crore).

An amount of ₹926.89 crore has been transferred to National Securities Depository Limited (NSDL) during 2017-18. Balance ₹164.90 crore was yet to be transferred as of March 2018.

An amount of ₹730.64 crore available in the Fund was yet to be apportioned between the States of Andhra Pradesh and Telangana.

Persistent short contribution by the State Government, short transfer to NSDL / Trustee Bank, and not-crediting the interest on un-transferred amount, unless rectified, will inevitably lead to bankruptcy of the NPS corpus and eventual failure of the scheme, hurting the interest of the subscribers.

(Paragraph 1.5.2.3)

Capital Outlays: Incomplete Projects

The State Government has placed creation of infrastructure as a priority area since the formation of the State. It has spent ₹79,236 crore on Capital Projects during the years 2014-18. Within the capital projects, more than 50 *per cent* of the Capital Expenditure was on Irrigation and flood control, except in 2016-17. Delays in completion of projects, however, not only adversely affected the quality of the expenditure but also deprived the State of intended benefits and economic growth. In respect of 19 irrigation projects, whose original cost was ₹41,201 crore, delays ranging from three to 11 years led to escalation of projected cost to ₹1,32,928 crore. An amount of ₹70,758 crore was spent on these incomplete projects so far. The State Government did not disclose financial results of any of the irrigation projects.

***Recommendation**: State Government may compile working results of Major Irrigation Projects to assess benefits from persistent heavy outlays in irrigation sector. These working results should guide future investments in the sector.*

(Paragraph 1.6.2)

Investment in Public Sector Undertakings

As of 31 March 2018, the State Government's investment in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operative stood at ₹16,365 crore. The Return on Investment (RoI) from Corporations/Companies was low at 0.62 *per cent* while the average rate of interest on Government borrowing was 7.21 *per cent.* Government investments are highest in power sector. Losses from the power sector (₹6,202 crore), however, accounted for 94 *per cent* of total losses (₹6,619 crore) incurred by State working PSUs in 2017-18.State Government's actions have adversely impacted the DISCOMs, which in turn could impact Return on Investment.

***Recommendation**: In order to ensure financial turnaround of DISCOMs, the State Government may release their dues as well as compensate the DISCOMs while implementing new Government policies.*

(Paragraph 1.6.3)

Loans and Advances given by the State Government

As of 31 March 2018, Loans and Advances given by the Government to Autonomous Bodies, and Corporations were ₹15,869 crore. While the average rate of interest on Government borrowing was 7.21 *per cent*, the interest receipts as percentage of outstanding Loans and Advances was only 0.53 *per cent.*

Government loans amounting to ₹428.45 crore in 2017-18 did not specify any terms and conditions, like schedule of repayment, rate of interest, number of instalments *etc.* Government was providing loans to Autonomous Bodies, whose annual accounts were in arrears. Government gave fresh loans to three autonomous bodies for servicing their past loans.

The current level of recovery of loans was low. In the Budget estimates, an amount ₹5,807 crore was estimated to be recovered in 2017-18. The actual recovery (₹138 crore), however, was only 2.38 *per cent* of the estimated recovery.

***Recommendation**: The State Government may ensure that future loans and advances to autonomous bodies are predicated on furnishing of audited accounts of the previous year.*

(Paragraph 1.6.4)

Ways and Means Advances

State Government maintained the mandatory minimum daily cash balance of ₹1.38 crore with RBI for only 161 days during the year. The State Government depended on Special Drawing Facility (for 204 days: ₹11,278.42 crore), Ways And Means Advances (for 127 days: ₹10,878.46 crore) and Over Draft (for 7 days: ₹764.89 crore) for maintaining the minimum balance with RBI. In monetary terms, however, SDF/WMA/OD increased by ₹10,834 crore (90 *per cent* increase) in 2017-18 over 2016-17, indicating increasing dependency of Government on WMA. The interest payment on WMA (including SDF and OD) during 2017-18 was ₹13.82 crore as against ₹7.40 crore in 2016-17, *i.e.*, 86 *per cent* increase.

(Paragraph 1.6.5)

Reserve Funds

The State Government, after 2015-16, was not making contributions to Reserve Funds, created for specific and defined purposes.

The aggregate shortfall of contribution to Consolidated Sinking Fund during the years 2016-18 was ₹1,163 crore (₹489.96 crore in 2016-17 and ₹673.69 crore in 2017-18). The State's liabilities during the same period rose by 69 *per cent* from ₹97,992 crore as of March 2016 to ₹1,65,849 crore in March 2018.

The aggregate shortfall in contribution to Guarantee Redemption Fund (GRF) during the years 2016-18 was ₹282.90 crore. The total available balance (₹586.65 crore) in GRF as of March 2018 was only 1.46 *per cent* of the outstanding amount of guarantees (₹41,892 crore) as against the targeted three *per cent*.

Further, there were 10 Reserve Funds, which were not in operation from 2012-13 onwards, with a balance of ₹16.43 crore as on 31 March 2018.

Recommendation*: The State Government must ensure that the contributions to Reserve Funds are made annually as stipulated, to enable a firm funding stream to meet the defined purpose of the Funds.*

(Paragraph 1.7.1)

Guarantees

Guarantees (₹41,892 crore) given by the Government to the end of 2017-18 stood at 51 *per cent* of total Revenue Receipts of the preceding year (₹82,818 crore) and was within the ceiling of 90 *per cent*. It was noted that the State Government was extending Guarantees to bodies that had not finalised their accounts. No revenue on account of Guarantee Commission (₹209.45 crore) was received under sub-head 08 – Commission for Guarantees given by the Government. The Government extended Guarantees for the interest portion also on the loan amounting to ₹71.03 crore in respect of two entities.

Recommendation*: The State Government must comply with its own orders and ensure that a comprehensive risk assessment informs its decisions to provide guarantees.*

(Paragraph 1.7.2)

Debt Management

Outstanding Public debt (₹1,42,918 crore) increased by 18 *per cent* in 2017-18 over the preceding year, at a higher pace than growth of GSDP. Interest payments are increasingly consuming Revenue Receipts. The interest payments relative to revenue receipts were much higher at 12.19 *per cent* against the target of 8.31 *per cent* fixed by 14th Finance Commission. The ratio of Debt repayment to Tax Revenue also increased from 6.84 *per cent* in 2015-16 to 8.05 *per cent* in 2017-18. The maturity profile of outstanding public debt as of March 2018 showed that 48 *per cent* (₹65,740 crore) of total outstanding debt is to be repaid over the next seven years.

***Recommendation**: The State Government may undertake a study, supported by future projections, to measure its total fiscal commitments and the ability to meet them. Such study can inform the risk assessment on its future borrowings.*

(Paragraph 1.7.3)

Fiscal Reform Path

The State Government (combined State), in compliance with the recommendations of the Twelfth Finance Commission (TFC), enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 (amended in 2011). Important targets relating to fiscal variables are to be amended from time to time in accordance with the Central Finance Commissions' recommendations. Government of Telangana, however, is yet to amend its FRBM Act in accordance with the recommendations of the Fourteenth Finance Commission.

FRBM Act, 2005 also requires the State Government to make disclosures and statements under Section 10 of FRBM Act, 2005 together with Rule 6 of Fiscal Responsibility and Budget Management Rules, 2006. The State Government, however, did not make four out of 10 disclosures required to be made.

(Paragraph 1.8)

Apportionment of assets and liabilities between Andhra Pradesh and Telangana

An amount of ₹1,51,349.67 crore under Capital Heads and an amount of ₹28,099.68 crore under Loans and advances were yet to be apportioned between Andhra Pradesh and Telangana even after more than four years of State Re-organisation.

A total of 91 institutions were to be de-merged as per Schedule IX of the Andhra Pradesh Reorganisation Act, 2014. Recommendations for de-merger of 86 institutions were given by an Expert Committee constituted for this purpose; the Telangana Government has accepted the recommendations in respect of two institutions.

***Recommendation**: The State Government may take steps to ascertain the assets and liabilities of remaining Schedule IX institutions and also take concrete steps for apportionment of Capital Heads and Loans and Advances.*

(Paragraph 1.9)

Excess Expenditure

Excess expenditure of ₹28,171 crore was incurred in 10 grants and two appropriations. Majority of the excess expenditure in 2017-18 occurred in Fiscal Administration mainly on account of repayment of Ways and Means Advances (₹22,922 crore). A total expenditure of ₹2,218 crore was incurred at sub-head level without any budget provision in 36 cases. Persistent excess expenditure occurred in Fiscal Administration, Planning, Surveys and Statistics and Home Administration grants.

***Recommendation**: State Government may analyse the reasons for persistent excess expenditure, placing Grant IX – fiscal administration on priority. Finance Department should ensure that no Departmental controlling officers, including the Finance Department itself, resort to excess expenditure over the regular allocations approved by the State Legislature.*

(Paragraph 2.2.2.1)

Excess Expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant/appropriation regularised by the State Legislature. State Government did not get the excess expenditure of ₹27,346 crore, over and above the allocation pertaining to the years 2014-15 to 2016-17 regularised.

***Recommendation**: All the existing cases of excess expenditure need to be got regularised at the earliest and, in future, completely stop such expenditure which has not received the vote of the State Legislature, with the exception of case(s) of dire and extreme emergency, the cost of which cannot be met from the Contingency Fund.*

(Paragraph 2.2.2.2)

Savings

In the year 2017-18, the total savings were ₹58,614 crore. Of which, ₹56,856 crore (97 *per cent*) pertain to 25 grants with savings of more than ₹100 crore each and by more than 20 *per cent* of the total provision. In addition, during the years 2014-18, there were cases of persistent savings of more than ₹500 crore.

Persistent Savings under Medical and Health as also in Social Welfare Sectors indicate that the schemes under these departments did not receive the required priority by the Government and there was inefficiency in implementation by the departments concerned / implementing agencies.

(Paragraph 2.2.2.3)

Re-appropriation

Re-appropriations are meant for transfer of saving in one scheme / unit to another within the same grant and under same section (*i.e.*, Capital, Revenue or Loans). Finance Department, however, issued re-appropriation orders to mainly withdraw the budget provisions, on the last day of the financial year. There were 44 cases of excess expenditure (₹6,064 crore) and 23 cases of savings (₹4,229 crore), even after, re-appropriations on the last day of the financial year.

***Recommendation**: Leveraging advancements in Information Technology State Government may issue re-appropriations on the basis of real-time data on committed expenses and actual receipts.*

(Paragraph 2.2.4)

Personal Deposit Accounts

Article 271 (iii) (4) of the Telangana Financial Code provides that Personal Deposit Accounts shall be closed at the end of the financial year by minus debit of the balance to the relevant service head in the Consolidated Fund of the State. In variance to the above, however, Government issued Orders (April 2000) that allowed funds released during a particular financial year to be lapsed by 31 March of the next financial year. This is contrary to the Legislative intent, which is to ensure that funds approved by it for the financial year are spent during the financial year itself. Notwithstanding the same, it was noted that an amount of ₹824.81 crore, in the PD accounts with 145 PD Administrators, which was due to lapse by end of next financial year (31 March 2018) was yet to be lapsed as of March 2018.

Government orders of June 2005 stipulated certain conditions in case of Personal Deposit account proposed in favour of an Officer of the State Government, so as to exclude the possibility of budgetary resources getting diverted to Personal Deposit Account. It was noted that a sum of ₹1,915 crore transferred from the Consolidated Fund during 2017-18, was held by eight Departmental officers, each PD Account holding a balance of more than ₹100 crore as of March 2018. Out of the total expenditure of ₹14,899.98 crore for the month of March 2018 an amount of ₹3,655.01 crore (24.53 *per cent*) was transferred from Consolidated Fund to the PD accounts. An amount of ₹3,194 crore out of this was transferred into category 'C' PD accounts. Government has transferred ₹1,500 crore and ₹800 crore to the Telangana Schedule Castes Cooperative Development Corporation and Telangana Scheduled Tribes Cooperative Finance Corporation, respectively, as loans at the fag end of the year (2017-18). Both the PD Administrators informed (March 2019) that the amounts of ₹1,500 crore and ₹800 crore were still in the PD Accounts. This indicates that the amounts were transferred to PD accounts to avoid lapse of funds.

There were 89 PD Accounts in 2017-18 with adverse balances; 701 non-operational PD Accounts with 'nil' balances; 949 PD Accounts with a total balance of ₹14.23 crore, had no transactions during the year 2017-18. Further, as per information furnished by Director of Treasuries and Accounts, 1,170 PD Accounts with an outstanding balance of ₹315.43 crore were inoperative for more than three years as on 31 March 2018. Government Officers, Public Sector Undertakings and Autonomous Bodies, were also operating heads of accounts meant for Local Funds. PD Accounts were being opened not in consultation with Accountant General (Accounts & Entitlement) but by duly notifying Accountant General (A & E) after opening.

Opening PD Accounts as a matter of routine with weak accounting controls, transferring funds to PD Accounts to avoid lapse and keeping large balances in the PD accounts without lapsing within the stipulated period entails dilution of legislative controls, inflation of expenditure figures and overstating of the liabilities of the Government and enhances the risk of misuse and misappropriation of funds.

***Recommendation**: Government may put in place a mechanism to review Category 'C' PD accounts and lapse the unspent balances by the Treasury Officers concerned as stipulated in the Government Orders. Transferring money to PD accounts from the Consolidated Fund of the State at the fag end to avoid lapse of funds should be avoided.*

(Paragraph 3.1)

Non-submission of Annual Accounts by Autonomous Bodies

There were delays in submission of annual accounts by autonomous bodies/ authorities. Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) and Hyderabad Metropolitan Development Authority (HMDA) and other autonomous bodies were not submitting annual accounts timely despite receiving loans / guarantees from the Government.

(Paragraph 3.4)

Non- submission of Detailed Contingent Bills

Detailed Contingent bills (2,164) of funds drawn for items of contingent nature were not submitted for ₹280.45 crore, in the absence of which there was no assurance that the money was spent for purpose they were drawn. Out of the above, 1,798 bills worth ₹244.39 crore pertain to only six Departments. Further, there were 641 AC bills amounting to ₹81.64 crore pertaining to the period prior to bifurcation of the State. Of this, 89 bills amounting to ₹5.72 crore were pending for adjustment for more than a decade.

Non-submission of DC bills within the prescribed time is a breach of financial discipline and enhances risk of misappropriation of public money and is an unhealthy practice.

(Paragraphs 3.6)