EXECUTIVE SUMMARY

This Report on the finances of the Government of Uttar Pradesh (GoUP) intends to assess the financial performance of the State during 2018-19 and to provide the State Legislature with inputs based on audit analysis of financial data. In order to put this analysis in a proper perspective, a broad comparison of targets envisaged by the Uttar Pradesh Fiscal Responsibility and Budget Management (UPFRBM) (Amendment) Act, 2016, the Fourteenth Finance Commission (FFC) Report and the Budget Estimates of 2018-19 have been attempted. The Report is structured in three Chapters.

Chapter-I is based on the audit of the Finance Accounts and makes an assessment of the fiscal position of GoUP as on 31 March 2019. It provides an insight into trends in expenditure on interest payments, salaries and wages, pensions and debt management.

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

Chapter-III is an inventory of the GoUP's compliance to various reporting requirements and financial rules.

Audit Findings

Fiscal situation of the State

The State has achieved revenue surplus of ₹ 28,250 crore during the year 2018-19, but the same is overstated by ₹ 13,419 crore. Further, the fiscal deficit (₹ 35,203 crore) of the State increased by 26.58 *per cent* as compared to 2017-18. The ratio of fiscal deficit to GSDP was within the targets as set in the budget estimates/Medium Term Fiscal Restructuring Policy (MTFRP), 2018, UPFRBM (Amendment) Act and FFC. However, the ratio of total outstanding debt to GSDP was above the targets set in the budget estimates/ MTFRP, UPFRBM (Amendment) Act and FFC.

During the years 2014-15 to 2018-19, the fiscal deficit was dominantly financed by market borrowings. However, there was scope for reducing market borrowings for financing fiscal deficit and consequent burden of interest on internal debt keeping in view the increase in investments held under cash balance investment account during 2015-16 (₹ 601 crore) to 2018-19 (₹ 15,525 crore). Further, the share of Reserve Fund in financing fiscal deficit consistently increased during 2015-16 (₹ 2,561 crore) to 2018-19 (₹ 13,545 crore) mainly due to significant appropriation from revenue account to sinking fund without actual investment of balances under sinking fund.

(Paragraphs 1.3 and 1.3.1)

Primary Deficit declined from (-) 1.35 *per cent* of GSDP in 2014-15 to (-) 0.20 *per cent* of GSDP in 2018-19. The improvement in Primary Deficit during the years 2014-15 to

2018-19 was mainly due to increase in revenue receipts. Further, there was concomitant contraction in Capital Expenditure relative to GSDP from 5.27 *per cent* (2014-15) to 4.05 *per cent* (2018-19).

(Paragraph 1.3.2)

Budget Estimates and Actuals

Revenue receipts grew by ₹ 51,203 crore (18 *per cent*) over 2017-18 receipts, which was lower (₹ 18,641 crore) than the budget estimates. The shortfall in revenue receipts vis-a-vis budget estimates were due to less receipt of grants-in-aid from Government of India (GoI) and less collection of own tax revenue as compared to budget estimates.

Revenue expenditure increased by ₹ 35,504 crore (13 *per cent)* over 2017-18, which was lower (₹ 19,792 crore) than the budget estimates. Further, Capital expenditure increased by ₹ 23,375 crore (60 *per cent*) over 2017-18, which was lower (₹ 11,781 crore) than the budget estimates.

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

(Paragraphs 1.2 and 1.3.3)

Resource mobilisation

The revenue receipt of ₹ 3,29,978 crore during 2018-19 included ₹ 1,50,223 crore from State's own revenue and ₹ 1,79,755 crore received from GoI. Own-tax revenue (₹1,20,122) of the State increased by 23 *per cent* as compared to 2017-18 mainly due to increase in State Goods and Service Tax (SGST), State Excise and Stamp and Registration Fee.

(Paragraphs 1.4.1 and 1.4.1.1)

Revenue expenditure (₹ 3,01,728 crore) continued to be the dominant component of the total expenditure and its share increased from 75.61 *per cent* (2014-15) to 81.44 *per cent* (2018-19). Committed expenditure (₹ 1,81,444 crore) on salary and wages, pensions, interest payments, subsidies was 55 *per cent* of revenue receipt.

(Paragraphs 1.5.1.1 and 1.5.1.2)

Capital expenditure (₹ 62,463 crore) increased by 60 *per cent* during 2018-19 as compared to 2017-18 when there was significant reduction in capital expenditure (44 *per cent*) mainly due to substantial budget provision for farm loan waiver. Despite growth during 2018-19, capital expenditure could not attain the 2016-17 level, whereas revenue expenditure grew by 28 *per cent* between 2016-17 and 2018-19.

(Paragraph 1.5.1.4)

Defined Contribution Pension Scheme (National Pension System)

State Government did not discharge its statutory liability as it failed to contribute ₹ 981.17 crore as its matching share under Defined Contribution Pension Scheme during the year 2018-19. Out of total collected contribution of ₹ 3,456.79 crore (employees' contribution and Government contribution) under Defined Contribution Pension Scheme during the year 2018-19, ₹ 153.25 crore was not deposited by the State Government with the designated authority. Thus, there was a short transfer of ₹ 1,134.42 crore (₹ 981.17 crore + ₹ 153.25 crore) to the designated authority during 2018-19 for further investment as per the provision of the Scheme. Thus, the current liability stands deferred to future year(s). Further, the State Government has created uncertainty in respect of benefits due to the employees/avoidable financial liability to the Government in future, and, thus, leading to possible failure of the scheme itself.

Recommendation: *The State Government should ensure that employees' deductions are fully deducted, fully matched by Government contributions and fully transferred to the designated fund manager through NSDL in a timely manner.*

(Paragraph 1.5.1.3)

Investments and Returns and Loans advanced

During 2014-19, the State Government has incurred a notional loss of ₹ 29,896 crore on return on investment on account of difference between the Government's borrowing cost and the return on investment in Public Sector Undertakings. Also, the State Government has incurred a notional loss of ₹ 1,340 crore on account of difference in the interest received on the loans advanced and that the Government incurred on its borrowings.

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

(Paragraphs 1.6.3 and 1.6.5)

Sinking Fund

The Twelfth Finance Commission (XII FC) recommended creation of Consolidated Sinking Fund (CSF) for amortisation of outstanding liabilities by the State Governments. CSF is administered by Reserve Bank of India. The State Government, however, has not set up the CSF (subsuming the existing Fund).

During 2018-19, the State Government appropriated ₹ 26,404 crore from Revenue Account (Major Head 2048 - Appropriation for reduction or avoidance of Debt) to Sinking Fund (Major Head 8222) under Public Account by book transfer. Out of this fund, an amount of ₹ 12,693 crore, equivalent to repayment of market loans, was transferred and credited to revenue receipts (under Major Head 0075-Miscellaneous General Services) under the Consolidated Fund without involving any cash outflow from Sinking Fund. The transfer of balances from the Sinking Fund (₹ 12,693 crore) to the revenue receipt head was not in consonance with the procedure prescribed for transfer of Sinking Fund balances, which resulted in overstatement of the revenue surplus by ₹ 12,693 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, the transfers out of the fund are not to be treated as Revenue Receipts and the amount* *equivalent to loan repaid should be transferred from Sinking Fund to Major Head 8680 on redemption of debt. The State Government should ensure that the Fund balances are actually invested and are not mere book entries.*

(Paragraph 1.7.2.1)

State Disaster Response Fund (SDRF)

Contrary to GoI guidelines that the SDRF should be operated under the category "Reserve Funds bearing Interest", State Government operates its SDRF under the category "Reserve Funds not bearing Interest". Further, the balances in the Fund are not invested as laid down in the SDRF guidelines. The State Government had not credited interest of ₹ 106.22 crore for the year 2018-19 on un-invested balances of the Fund.

The State Government received ₹ 157.23 crore from NDRF during the year 2018-19 which was booked under MH 1601- Grants-in-aid from Central Government and treated as receipt. However, this amount was not transferred to the State's SDRF account during the year 2018-19. As a result, the revenue surplus of the State Government was also overstated and fiscal deficit understated by ₹ 157.23 crore.

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 per SDRF guidelines. The State Government is also required to invest the fund balances in the manner prescribed in the guidelines.*

(Paragraph 1.7.2.3)

Contingent Liabilities – Status of Guarantees

For the purpose of redemption of guarantees, the State Government was required to create a Guarantee Redemption Fund as per the recommendations of Twelfth Finance Commission. However, State Government has not created a Guarantee Redemption Fund. Under the RBI Guidelines 2013, it was required to make minimum annual contributions of ₹453.91 crore (0.5 *per cent* of outstanding guarantee of ₹ 90,781.57 crore at the beginning of the year 2018-19) which was not done. This had the impact of overstating the revenue surplus and understating the fiscal deficit by ₹ 453.91 crore.

The State Government issued guarantees in respect of 23 institutions, of which 21 institutions were exempted from payment of guarantee fee. It was noticed that receivable guarantee fee (₹ 10.46 crore) from two institutions were not received during 2018-19.

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

(Paragraph 1.7.3.2)

Excess expenditure requiring regularisation

There was an excess disbursement of ₹ 1,539.44 crore over the authorisation made by the State Legislature under four grants and four appropriations during the financial year 2018-19. Excess disbursements of ₹ 30,985.81 crore under 98 grants and 42 appropriations pertaining to the years 2005-06 to 2017-18 are yet to be regularised by the State Legislature. This is in violation of Articles 204 and 205 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Recommendation: *The State Government should ensure that all the existing cases of excess expenditure are placed before the State Legislature for regularisation at the earliest.*

(Paragraph 2.2.1)

Savings

Savings of ₹ 90,038.26 crore occurred in 65 cases relating to 46 grants/ appropriations exceeding ₹ 100 crore in each case. Further, out of above 65 cases, there were 18 cases, where savings exceeds ₹ 1,000 crore in each case. In 28 cases involving 22 grants, there were persistent savings (₹ 100 crore and above) each year during 2014-15 to 2018-19. The savings under these grants ranged between ₹ 101.54 crore and ₹ 14,921.22 crore during the year 2018-19.

Recommendation: *The Finance Department should review the reasons for non-utilisation of the provisions under various schemes and take steps to make more judicious provisions in future years.*

(Paragraph 2.2.2)

Advances from the Contingency Fund

During the year 2018-19, ₹ 396.29 crore was disbursed, out of which only ₹ 66.57 crore was recouped and remaining ₹ 329.72 crore unrecouped. As on 31 March 2019, the amount of ₹ 629.72 crore drawn from the Contingency Fund remained unrecouped, which included unrecouped balances of ₹ 300 crore of 2016-17. Non-recoupment of this advance was reported in the Audit Report No. 1 of 2018 and Audit Report No. 3 of 2019.

Recommendation: *The State Government should take action on recommendation made in Para 2.2.9 of the State Finances Audit Report No. 3 of 2019 and ensure timely recoupment of advances taken from the Contingency Fund.*

(Paragraph 2.2.9)

Personal Ledger/ Personal Deposit (PD) Accounts

Under the Uttar Pradesh Personal Ledger Account (PLA) Rules 1998, if there is no transaction in any PLA/PD accounts for three years, the PLA/PD Account would be closed after transfer of the balance, if any, to the corresponding head of account. The

State Government had also directed (January 2018 and March 2018) all Departments to close all PLA/PD Accounts remaining inoperative for more than three years. Audit observed that the amounts lying under inoperative PLA/PD Accounts reduced after the issue of the State Government orders (January 2018 and March 2018). However, an amount of ₹ 22.77 crore was parked in 416 PLA/PD Accounts as on 31 March 2019.

(Paragraph 3.1)

Non-submission of Utilisation Certificates

As on 31 March 2019, a total of 63,366 Utilisation Certificates (UCs) for non-recurring grants-in-aid involving ₹ 23,832.12 crore released during the financial years 2001-02 to 2017-18 (September 2017) were due but remained outstanding. Therefore, there is no assurance that the amount of ₹ 23,832.12 crore has actually been incurred for the purpose for which it was sanctioned/authorized by the Legislature. High pendency of UCs was fraught with the risk of misappropriation of funds and fraud. In this context, the State Government has also issued directions to all Department for submission of UCs and the status of submission of UCs was improved.

Recommendation: *The State Government should prescribe a timeframe within which administrative departments releasing grants collect UCs pending beyond the time stipulated in the sanction orders and all pendencies are reviewed before release of fresh grants to defaulting grantees.*

(Paragraph 3.2)

Building and Other Construction Workers (BOCW) Welfare Cess

BOCW Board has not finalised its accounts since inception, the authenticity of receipts and expenditure of the Board could not be ascertained in Audit.

The State Government issued (August 2013 and September 2016) orders to deposit the receipts of cess collected by the concerned officials into the Nationalised Bank account being operated by the Board for this purpose. The orders to transfer the cess directly to the bank account without bringing it into the Consolidated Fund of the State violates the provision of Article 266 (1) of the Constitution of India. Consequently, it is not ascertainable from the Accounts of State Government how much money was collected by the Cess Assessment Officers and Cess Collectors on account of cess, fee etc. and how much money was transferred to the Board.

As per the provisional data made available by the Board, the expenditure incurred by the Board for welfare of workers against available funds ranged from only three to seven *per cent* and covered just six to 15 *per cent* of the registered workers.

Recommendation: *The U.P. BOCW Welfare Board should fulfil its mandate of improving the working conditions of building and other construction workers and providing adequate financial assistance to them. The State Government should also review its orders to transfer the cess directly to the bank account of the Board instead of the Consolidated Fund of the State.*

(Paragraph 3.7)

Transfer of additional stamp duty to Development Authorities

State Government has not opened a distinct sub-head to account for the additional stamp duty, in the absence of which, it is not clear how much money was received by the Government on account of two *per cent* additional stamp duty under the Uttar Pradesh Urban Planning and Development Act, 1973 and whether all the moneys received were transferred to the concerned Municipal Corporations/Municipalities/Parishads/ Development Authorities in specified proportions.

Further, the Government while determining the procedure (September 2013) for distribution of the additional two *per cent* stamp duty, ordered transfer of 25 *per cent* of the amount collected to a Dedicated Urban Transport Fund which was against the provisions of the Uttar Pradesh Urban and Development Act, 1973.

Recommendation: *The State Government should ensure that the accounts fully and transparently capture the receipts and transfer of the additional stamp duty to the authorities/municipalities etc. as specified under the U.P. Urban Planning and Development Act. State Government should also review the order authorising transfer of 25 per cent of the additional stamp duty to a Dedicated Urban Transport Fund which is not provided under the Act.*

(Paragraph 3.8)

Delay in Finalisation of accounts of PSUs/Corporations

The accounts of 60 working PSUs/ Corporations (225 accounts) and 42 non-working PSUs/ Corporations (658 accounts) were in arrears of one to 37 years. State Government provided budgetary support of ₹ 5,036.61 crore to 22 working Public Sector Undertakings up to 31 March 2019 (equity: ₹ 1,552.38 crore, loans: ₹ 996.52 crore, capital grants: ₹ 1,748.52 crore, other grants: ₹ 665.57 crore and subsidies: ₹ 73.62 crore) and guarantees of ₹ 4,460.64 crore during the period for which their accounts were in arrears. These PSUs have not finalized their accounts for the last 1 to 15 years in gross violation of the provisions of the Companies Act. Due to non-finalisation of accounts, the Comptroller and Auditor General of India was unable to discharge his responsibilities with regard to certification of accounts of these PSUs as required under CAG's DPC Act, 1971 and the Companies Act.

Recommendation: *The Finance Department should review the cases of all PSUs that are in arrears of accounts and ensure that the accounts are made current within a reasonable period.*

(Paragraph 3.11)

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, six profit earning PSUs did not declare dividend of ₹ 602.93 crore, out of which ₹ 602.48 crore relates to Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited.

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

(Paragraph 3.12)

Opaqueness in accounts

During the year 2018-19, under various revenue and capital Major Heads of accounts, the minor head 800 was operated. Minor head 800 relating to Other Receipts and Other Expenditure is intended to be operated only when the appropriate minor head has not been provided in the accounts. During 2018-19, receipts of ₹ 24,190.25 crore and expenditure of ₹ 38,022.97 crore under various Major Heads of accounts, was recorded under minor head 800-Other Receipts/Expenditure under different Major Heads. The fact that such substantial proportion of the receipts and expenditure under the concerned Major Head are booked under minor head 800 renders the accounts opaque and impacts transparency.

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 heads of account and further, if required, appropriate heads of accounts may be opened.*

(Paragraph 3.14)

Apportionment of balances as on reorganisation of the State

The State Government was yet (since November 2000) to apportion ₹ 8,757.37 crore under the 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 3.15)