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India
Rajasthan: State Financial Accountability Assessment

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CURRENCY EQUIVALENTS

Currency Unit	=	Indian Rupee (Rs.)
US$1	=	approx. Rs. 46
1 Crore	=	10 million
Rs. 1000 Crores	=	approx. US$217 million

FISCAL YEAR

April 1 – March 31

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ABBREVIATIONS AND ACRONYMS

alphabetically listed

AG (A&E)	Accountant General (Accounts & Entitlement)
AC	Abstract Contingent
BE	Budget Estimates
BFC	Budget Finalization Committee
CAG	Comptroller and Auditor General of India
CGG	Centre for Good Governance
COPU	Committee on Public Undertakings
DC	Detailed Contingent
DDO	Drawing and Disbursing Officer
FRBM	Fiscal Responsibilities and Budget Management Act 2005
GASAB	Government Accounting Standards Advisory Board
GFARs	Government Financial and Accounts Rules
GFRs	General Financial Rules
GoI	Government of India
GoR	Government of Rajasthan
GSDP	Gross State Domestic Product
IFAC-PSC	International Federation of Accountants – Public Sector Committee
INTOSAI	International Organization of Supreme Audit Institutions
MTFP	Medium Term Fiscal Program
NGO's	Non-Government Organizations
PAC	Public Accounts Committee
PFMA	Public Financial Management and Accountability System
PLAs	Personal Ledger Accounts
PRIs	Panchayati Raj Institutions
PSEs	Public Sector Enterprises
RE	Revised Estimates
SAI	Supreme Audit Institution
SFAAs	State Financial Accountability Assessments
ULBs	Urban Local Bodies

Report Team and Acknowledgements

This Assessment has been prepared by the SARFM task team led by Vinod Sahgal in collaboration with Ahmad Ahsan, Upasna Verma, Vikram Menon, Vikram Khub Chand and Ananya Basu (SASPR), Mr. Mam Chand (SARPS), Manvinder Mamak (SARFM) and William McCarten (WBI).

The core team comprised of Mr. Dharam Vir, Ms. Girija Varma, Mr. Krishnan Srinivasan, Mr. Anup Kumar Aggarwal, Dhruba Purkayastha, Mr. D.N. Ghosh from Investment & Information Credit Rating Agency Limited (ICRA LTD), Mr. P.K. Jain, Mr. A.K. Ojha, Mr. Suneel Dhariwal, Mr. Rakesh Hooja, Mr. Arvind Mayaram from the Centre of Good Governance at the HCM Rajasthan State Institute of Public Administration (HCMRIPA).

The core team worked with the help of P.K. Subramaniam (SARFM), Vikram Menon (PREM) and peer reviewers, Rajat Narula (LOAS), Bill Allan at Washington D.C. under the general supervision of Robert Saum, Manager.

The assessment benefited from a range of discussions with several officials of the Government of Rajasthan including Mr. Rajiv Mehrishi, the late Mr. S.P. Gupta, Mr. K.K. Gadeock, Mr. Vinod Pandya from the Deparment of Finance and Mr. Yaduvendra Mathur, Department of Energy along with Mr. G.L. Choudhary, Mr. R.S. Rathore, Ms. Sumitra Singh, The Honourable Speaker, Rajasthan Legislative Assembly. Mr. S.R. Goel and Mr. S.S. Bhandari, Chartered Accountants at Jaipur provided professional advice.

The Accountants General at the Office of the CAG of India located at Rajasthan were extremely helpful in pointing the team to appropriate sources of information included in the annual reports of the CAG of India.

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The report and its contents have been discussed with Government of Rajasthan officials. The views and opinions expressed may not necessarily reflect the views of the state government, especially where the Bank has stated its judgment / opinion / policy recommendations.

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EXECUTIVE SUMMARY

INTRODUCTION

1. Democratic governments all over the world are undertaking reforms to their public expenditure management system. Reforms are aimed at bringing about greater relevance, transparency, accountability and user friendly reporting for stakeholders. Improving the quality of public expenditure has also assumed importance across India. Global experience suggests that using public expenditure efficiently and effectively is becoming as important as mobilizing and allocating public resources in an optimal manner. Further, with rapid increase in plan and capital expenditure at states such as Rajasthan it has become even more important to ensure the effectiveness of expenditure. There is, in this regard a growing appreciation that development is as much an outcome of efficient institutions as the other way around.

2. The Bank's Country Assistance Strategy for India has placed emphasis for modernizing the institutions of public financial accountability and undertaking such diagnostic work as necessary to help build capacity for better public sector financial management. Financial Accountability Assessments (SFAAs) are carried out in all States where the Bank's engagement is or likely to be significant. These assessments have both a developmental and fiduciary perspective. A number of studies of this nature have been carried out across the country.[1]

3. The primary purpose of this study is to support the reform efforts of the Government of Rajasthan (GoR) through identifying specific opportunities for more effective financial management and control over public resources. The study was undertaken based on consultations with the Principal Secretary Finance Department and in conjunction with the economic analysis undertaken by the World Bank in Fiscal Year 2005 and the state's Center for Good Governance that culminated in the publication of the Bank's Report: *Rajasthan – Closing the Development Gap* issued in August 2005. The Report pointed out that despite being considered one of India's lagging states, Rajasthan made impressive progress in the 1980 & 1990s. Since 1999, however new challenges have appeared, threatening further progress. Per capita growth rates have declined. Cognizant of such challenges, the GoR has started implementing policy reforms.

4. The diagnostics carried out focus on the performances of the public financial management and accountability system (PFMA) of Rajasthan. It covers the following broad areas: (i) Budget Preparation, Approval and Execution, (ii) Internal Control including Internal Audit, (iii) Government Accounting and Financial Reporting, (iv) External Audit and Legislature's Scrutiny; and (v) Public Access to Financial Information.

[1] Orissa, Karnataka, Andhra Pradesh, Uttar Pradesh and Punjab etc.

5. Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs) are outside the scope of the study. Typically, weaknesses found in financial control at the state level are even more apparent in local levels of government, and capacity to deal with these even less. The objective of re-invigorating local government will depend critically on further work on PFM issues at the local level—perhaps drawing on the principles developed in the SFAA and applying these at lower levels of government for which separate studies are already under way. In regard to the Public Sector Enterprises (PSEs) the scope is limited to the extent of Government's fiduciary obligations relating to these entities. A broad view of fiscal risk needs to take into account risks arising from quasi-fiscal activities that government undertakes through its enterprises.

6. The nature and extent of analysis supporting the diagnostics was influenced by the GoR's decision to restrict Bank access to information generally available in the public arena. Observations and recommendations communicated by senior officials of GoR for consideration and incorporation in the Report were very useful. The state's Centre for Good Governance (CGG) at Jaipur was appointed as a technical collaborator to the team conducting the assessment. CGG is charged with the responsibility to prepare the Development Action Plan (DAP) and in consultation with the GoR.

OVERALL ASSESSMENT – THREE PRIORITIES

7. The overall picture is mixed. The fiduciary risk is substantial as is the case of many other States in India. There is a well-documented system and procedures for financial management and accountability, but there is a significant compliance gap that has dented the architecture of accountability. (See Box 1). .

BOX 1
Significant Aspects of Compliance Gap

- Incidence of Supplementary Grants unacceptably high, both in terms of the number of Grants (over 80 per cent) and the amounts (nearly 25 per cent) involved; the overuse of supplementary grants prevents establishment of hard budget constraints.
- Annual budget not Secretary driven; the formal effort to achieve integration and harmonization only occurs at the end of the budgetary process.
- The prescribed instructions of zero- based budgeting not implemented, and the budget mainly prepared on incremental basis.
- Performance Budgets not prepared in the manner prescribed.
- Excess of expenditure over Grants frequent.
- Failure of expenditure monitoring mechanism as seen from cases of excess expenditure over Grants, injudicious movement of funds etc.
- Lack of fiduciary assurance for development projects
- No assessment by the Departmental Secretary/Head of Department of the effectiveness of internal controls
- Large-scale non compliance with prescribed control systems
- Key financial controls are not being observed, and remedial action is slow notable deficiencies are:

- Failure to clear suspense accounts at year-end (although improving)
- Large-scale transfer of appropriations to deposit heads at year-end.
- Advance accounts on contingency spending are abused.

- Annual Financial Reports, while prepared by the Accountant General on time, are not disseminated to the public in a timely way
- Administrative as well as Legislative follow-up on audit of both Government accounts and public undertakings inadequate

The compliance gap, not uncommon in other jurisdictions considerably enhances the fiduciary risk and reduces the optimal utilization of scarce resources and tax payers money.

8. The need is also to modernize the system of public financial management and accountability in order to improve the effectiveness of expenditure. The system has not been fully complied with nor kept up with best practice. Currently, there are three broad areas for substantive improvements.

9. First, the system of financial management needs to be reoriented towards greater emphasis on development outcomes and related reporting on program performance. This re-orientation would understandably take sometime to fully implement. Continuing with financial control over cash outlays based on incremental budgeting and financial reporting based on cash payments may no longer be sufficient. A beginning towards result orientation has to be made.

10. Second, there is need to further emphasize departmental accountability to the public for efficient and effective use of public resources and cost effective delivery of departmental services - whether they are health, education, water, electricity and so on. The role of the departmental financial advisor would need to be broadened.

11. Third, the machinery for implementing the Rights to Information legislation which is an important tool for enhancing public scrutiny needs to be further strengthened commensurate with the demands of the more recent Rights to Information legislation at the center that would also apply to Rajasthan effective October 12, 2005. For instance, each department has to designate a senior official, who will be responsible for facilitating excess to information requested by citizens. This legislation is a major breakthrough for advocates of transparency and accountability. There is at Rajasthan an immediate call for institution building including training of senior officials supported by a change in mind set at all levels of the civil service hitherto conditioned by the Official Secret Act and related rules of conduct. At the same time the new legislation is likely to trigger enhanced demand for better financial management and public accountability

12. There are a number of similar reforms underway to the system of public expenditure management at the Central Government. An Administrative Reform Commission has been appointed with a mandate to promote what could be far reaching reforms to the public administration. The budget management system is to move its emphasis from cash outlays to development outcomes. An outcome budget was presented for the first time in

August 2005. The cash based system for accounting is to be replaced with an accrual based system. Performance Indicators are being established for better monitoring and evaluation of program delivery systems. The duties, responsibilities and powers of financial advisors in administrative ministries have been redefined. All these are aimed at improving the public financial management and accountability system in line with best international practice. These reforms are likely to stimulate further demand for a more "e" based modern financial management and control systems at the Centre and at the states, particularly in the background of significant amounts of expenditure incurred on the Central sector and Centrally Sponsored Schemes. There is an opportunity for Rajasthan to make concurrent reforms to its systems and procedures and bring them into line with best practice.

13. A striking message of this report is that of a general failure in Rajasthan to assign overall responsibility for financial management and despite reasonable formal systems, a lack of effective mechanisms of accountability. These points are made at various places in this report and suggestions for reform are made, but the central importance of addressing these issues in a coordinated strategy has to be emphasized. Rajasthan may wish to depute one senior official in the Finance Department to lead the effort required for modernizing the system of public financial management and accountability. There is need to develop a roadmap for strengthening the system including performance management and for moving towards accrual-based accounting in conjunction with an outcome-based budget system.

14. Addressing complex issues raised in this report would appear to require a very strong high-level effort driven by the Finance Department and with full Cabinet support. GoR needs to prepare, monitor and implement a time-bound Development Action Plan with intermediate milestones for modernization and further strengthening the PFMA. The Centre for Good Governance working for the Department of Finance is well placed to take responsibility for designing and implementing a Development Action Plan to address the concerns raised in this Report including the need for capacity building in areas like budget preparation, revenue research, cash management, internal audit and e-governance. A nodal monitoring unit functioning under the Principal Secretary Finance should coordinate and oversee the process with the active collaboration of the Centre for Good Governance. It will be necessary to prioritize the related institutional reforms and sequence the related capacity building requirements. Progress in this regard ideally should be monitored at the level of the Chief Secretary.

Specific Observations

Budget Preparation, Approval and Execution:

15. The design of the system is sound. There are well- defined procedures for all aspects of budgeting and implementation including performance orientation. They allow for adequate reflection of government policies and objectives including fiscal targets, ongoing involvement of line departments, and disclosure requirements that are generally consistent with prevailing good practices in India. Recently budget preparation has further improved—there was, for instance, an improvement in estimation of tax revenues from

2003-04 onwards. And there are continuing improvements in disclosure practices in line with recommendation of the Reserve Bank of India and other similar regulatory bodies. Such measures intended to assist the GoR improve control and financial reporting in relation to the primary policy goal of sustaining fiscal adjustment.

16. There are a number of further opportunities for improvement. More user-friendly budget documents could be prepared along with a clear statement of each department's mission and key indicators that provide benchmarks for monitoring program performance. Areas in budgeting that need further attention include: (i) priority setting – there is need for more careful review of the justification for continuing ongoing schemes and due consideration be given for alternatives and priorities established based on completion dates and related benefit, (ii) comprehensiveness – the budget would be more comprehensive if all expenditure was recognized including amounts transferred by the central government directly to district level agencies for centrally sponsored schemes, and subsidies whether explicit or implicit, (iii) performance budgeting in line with a more outputs/ outcome oriented approach - this approach has been accepted in principle by GoR and departments are expected to develop their performance budgets annually, (iv) medium term fiscal planning linked with the Five year Plan –budgeting in a rolling medium term framework supports better prioritization and implementation[2], (v) monitoring of implementation of departmental activities on a regular basis throughout the year- example, GoR could look into the underlying causes leading to year end rush of expenditure and bookings to the public account to ensure that the government rules are not being unnecessarily violated, and there appear to be recurring need for relatively large supplementary grants, and (vi) revenue administration – the extent of arrears in assessments as well as realization of government revenues points to opportunities for improved performance of revenue administration.

17. There is a view that setting up of subject matter committees by the Assembly to review departmental budget submission along with performance reports relating to past expenditure could add to the quality of legislative scrutiny of the budget and thereby greater openness to public inputs. Such a system prevails at the central level and in several States such as Kerala, Himachal Pradesh and Orissa.

Internal Control Including Internal Audit:

Internal Control:

18. Cash transactions are well controlled**.** Transaction level financial control over receipts and payments are working remarkably well. The system of internal control however does not sufficiently focus on monitoring utilization of expenditure with physical progress of development projects. Performance indicators relating to individual line departments and schemes have not been fully articulated. The emphasis has been far too much on statements of cash transactions and review of procedural controls, rather than on using reporting as a managerial tool for bettering operational performance and for achieving development objectives.

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[2] The integration with the Five year Plan could be more intensive in the context of the medium term perspective.

19. There is need to strengthen *departmental* accountability for cost effective service delivery. Once a new public expenditure system involving changeover from outlay-orientation to outcome-orientation is introduced, departments would need not only to achieve annual budget targets but also measure achievements against desired outcomes under major programmes. This would imply that the management information system should not only be capable of generating intra-year and end-year information for monitoring budgetary targets but also achievement of outcomes under major programmes. The computerised accounting system would need to be more integrated in line with a modern management information system that can help in monitoring outputs and outcomes linking financial with non financial information. A main task ahead is improve the quality of information generated for decision making, tracking of expenditure from the state treasury to the ultimate beneficiaries and more timely and useful departmental reporting on service delivery.

20. There is need to re-examine the role of the financial function. To successfully implement the proposed result based financial management system in each department, the roles and responsibilities of financial officers such as the departmental financial advisor would have to be more broadly defined, employees would have to be retrained on e governance, the management information system would have to be upgraded, and financial rules would have to be modernised in harmony with those of the central government.

Internal Audit:

21. Methodology of internal audit requires rethinking as in the case of many other jurisdictions. Internal audit operates within the framework of a compliance audit function and the limited resources made available for this purpose. The existing internal audit set-up lacks defined audit standards, plans or programs, and its coverage is uneven. The planning of audit activities is not sufficiently linked to risk. Its role does not include identification of systemic improvements to operations as required from time to time. The performance of the internal audit units under the control of the Heads of Departments is even less satisfactory. The lack of follow-up by the executive in responding to internal audit reports is another major drawback. Impact of internal audit is marginal.

22. A risk based approach to audit is recommended. To make the internal audit process more effective, stipulated time period for audit response needs to be followed and a more thoughtful i.e., strategic and systematic audit approach should be introduced along with proper audit standards. A risk-focused approach would help in targeting high-risk areas, such as transmission and distribution losses in the power sector, preparing an effective audit plan, and operating within the limitations of small audit team. High fiduciary risk areas such as public works, education, power and health and where the amounts involved are large or where social expenditures are increasing or where chances of impropriety are high such as sales tax collections deserve greater audit attention. Ideally, there should be integrated internal audit set up reporting directly to the respective Administrative Secretaries.

Government Accounting and Financial Reporting:

23. Rajasthan has made significant progress in computerisation. All the treasuries and sub treasuries that make payments have been computerised. Computerization of all those sub treasuries which do not currently make payments would be the next logical step.

24. GoR follows a traditional single entry cash basis of accounting. Only those transactions where cash has been paid or received are recorded by the system. Transactions where no cash has been paid or received are not recorded in the accounts, even if value of the transaction has been received or a liability been contracted. Physical assets are not fully accounted for; utilization certificates do not refer to specific assets created or any other kind of value addition. Accounts nevertheless score well on a number of parameters set in the IFAC-PSC[2] standard on the cash basis of accounting but do not meet the standard as a whole mainly due to lack of definition of coverage of the economic entity and a lack of a statement of accounting policies.

25. Timeliness of the publication of accounts completion remains an issue. While the Annual Financial Reports (Appropriation Accounts and Finance Accounts) of the State are prepared regularly and within six months of the closure of the financial year, they are not tabled in the legislature immediately when the legislature is not in session. As a result public dissemination becomes delayed. The Appropriation Accounts and the Finance Accounts of 2002-03 were presented to the State legislature on January 20, 2004. The state may wish to consider using the web for publication of monthly accounts (and cumulative) throughout the year as in the case of Karnataka where the power of e governance has now been well recognized.

26. The management of "Suspense Accounts" has significantly improved over the years. As of March 2004, the outstanding balance under Suspense Account has been small and is also showing a reducing trend. The large-scale transfer to Deposit heads in the Public Account undermines the accuracy and completeness of accounts. GoR needs to review the amounts under deposit heads (also called personal ledger accounts) and prevent further accretions. This practice of using such accounts in any case is of questionable value.

27. The annual accounts and monthly accounts do not present a complete picture of the GoR's financial performance/position. The absence of well-defined accounting standards is a major underlying factor. Even with the present cash accounting system, improvements could be made in the areas of contingent and pension liabilities, quasi-fiscal activities pertaining to public sector undertakings, tax expenditures etc to ensure accuracy and completeness. The system has limitations, for instance, liabilities could be understated, fixed asset accounting is often absent, full cost of services cannot always be ascertained on a timely basis and commercial services cannot be priced correctly. Therefore, a progressive shift to accrual accounting is recommended and the same is in line with the Central Government policy directives.[3] The introduction of a formal system of accrual

[2] International Federation of Accountants – Public Sector Committee

[3] The Twelfth Finance Commission in their Report submitted to the Government of India has recommended introduction of accrual based system of accounting. The Finance Minister in his explanatory memorandum to

accounting will require a medium to longer term plan of action developed in consultation with the Comptroller and Auditor General of India (CAG).

External Audit and Legislative Scrutiny:

External Audit:

28. Audits are conducted by the Comptroller and Auditor General of India (CAG) regularly. They cover the state's financial transactions. Additionally, oversight is provided over the external audits of public sector undertakings conducted by private auditors. CAG's assistance to the PRIs and ULBs are of recent and increasing interest. A reading of CAG audit reports suggests that the fiduciary risk is at least as significant as at other states across the country. According to a recent report issued by the Planning Commission there are significant leakages in the targeted public distribution system across India with Rajasthan on the high side albeit not on the top of the list of states. Financial irregularities of a similar nature are often being reported by the external auditors year after year. And audit reports on Public Sector Enterprises are almost always qualified and often very late. The impact of these audits too appears to be marginal.

29. The Audit function needs to promote productivity, answerability and fairness in the presentation of financial information. While the majority of audits focus on compliance with government rules and regulations the CAG has in the recent past placed greater emphasis on performance audits in line with more modern auditing standards and greater concern for the quality of internal control and internal audit. Similarly, there is a move a foot to strengthen the financial attest audit function to enable a professional auditor's opinion on the government's financial statements. These steps are designed to modernize the public audit function and improve its impact. They are fully consistent with the movement towards a more performance based management of public resources.

30. GoR's relationship with the Accountants General needs to be revisited. GoR is encouraged to enhance its ongoing dialogue with the Accountants General at Rajasthan on how auditors could contribute more effectively to the cost effective delivery of services and more timely dissemination of audit results to the public. A movement in this direction would help improve the scope, timing, public access and follow up of audit observations in previous audit reports. This step would also help further exchange between the government and the CAG of India on ways to minimize fiduciary risk and improve the effectiveness of the financial management and the control procedures associated with the flow of funds across the three levels of Government. This direction would be consistent with best global practice which encourages external auditors to become agents for ongoing reform and catalysts for constructive change.

31. The question of timely response by government to audit observations is important. The Chief Secretary could take the lead by requiring and monitoring full compliance by all

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Parliament dated February 26, 2005 has stated, "*the Government has accepted this recommendation in principle. The Government Accounting Standards Board in the office of the Comptroller and Auditor General of India would be asked to draw detailed road map and operational framework for its implementation*".

line departments to the guidelines for providing timely response to the CAG's Audit Reports with suitable incentives for civil servants that respond with a positive attitude and take prompt action. Such a requirement would improve audit impact and more timely remedial action where appropriate.

Legislative Scrutiny:

32. The impact of external audit is also linked to the quality of legislative scrutiny and this works both ways. The two institutions work in a symbiotic relationship. The effectiveness of one is dependent on the other. The two oversight committees the Public Accounts Committee and the Public Undertakings Committee are performing their functions in a manner similar to other jurisdictions in India.

33. The impact of the oversight committees could be further enhanced with timely action on the audit reports and on the reports of the Committees. This needs to be monitored at the level of the Chief Secretary. The arrears in the follow up on the audit reports could be tackled through innovative strategies. And greater openness of the work of these two committees would enhance their effectiveness. Best international practice includes an annual debate on the work of the Committees at the Legislative Assembly.

Public Access to Financial Information:

34. Ready public access to financial information is a powerful tool for promoting financial accountability. Rajasthan's access to information legislation provides a reasonable framework for establishing the public access to information. This legislation covers all government department and agencies and the steps to be taken for its implementation have been communicated within government. There are sanctions against willful and *mala fide* refusal to disclose and/or incorrect disclosure of information. GoR now has over four years of experience in this area. The experience in the implementation of the State legislation can be leveraged for further strengthening public access to financial information.

35. The additional challenge before the GoR is the implementation of the Central Government - Right to Information Act, 2005 that is much wider in its ambit and sweep. This Act narrowly defines the exclusions with the over-riding proviso that information that cannot be denied to a member of the state legislature shall also not be denied to any person. The Act also prescribes a whole range of *suo moto* disclosures. The power to levy penalties for violating the provisions of the Act has been vested in the independent State Information Commissioner. The Act also contains provision for the propagation of the citizen's right to information.

36. GoR needs to streamline its information and records management systems with adequate use of computers. Officials need to take the lead in making best use of Information and Communication Technology i.e. hardware and software, which is now readily available off the shelf. The initiatives already under way by way of e-Mitra, land record computerization project, computerization of activities of the Departments of Commercial

Taxes, Excise, Transport and Registration and Stamps can be hastened and leveraged. Action could be taken to place maximum information on the web site. Constructive use of publicly available reports on the internet could help to address a number of the accountability and responsibility problems raised in the report. GoR also needs to issue general instructions for the guidance of staff; impart the necessary training; and promote a culture of transparency with change in the mindset of bureaucracy that recognizes that information is no longer its monopoly and that it will be held accountable on a day-to-day basis, and not only for the results but also for its actions and processes.

MAIN RECOMMENDATIONS

37. The Rajasthan Fiscal Responsibilities and Budget Management Act 2005 prescribes stringent targets of elimination of revenue deficit by March 2009 and progressive reduction of fiscal deficit with tight cap on public debt. The Right to Information Act, 2005 is likely to witness heightened demand for public accountability for Government resources and tax-payers money. There is already a rising level of public aspirations and expectations for a better quality of life. In this background the need for substantive improvements in GoR PFMA can hardly be over-emphasized. The recommendations of the SFAA are crucial for achieving the policy goals[3] stated in the Bank's Report: *Rajasthan – Closing the Development Gap* issued in August 2005. In addition to providing diagnostics, this SFAA Report contains signposts for further action needed for effecting the desired reforms. The main themes of a cross-cutting nature are:

Strategic

1. Shift emphasis from outlays to outcomes as in Government of India.
2. Hold the controlling officers responsible for the operating performance of their departments. The Administrative Secretary should assume responsibility as the Chief Accounting Authority of the department as in the Central Government.
3. Promote openness in all areas of administration; make preparations for the implementation of the Central - Right to Information Act, 2005.

Operational

4. Improve the enforcement of the existing rules and regulations, including for example response to audit and the recommendations of the legislative committees.
5. Promote the use of computers and e-governance.

38. It would be timely to prepare and implement a Development Action Plan in collaboration with the Centre for Good Governance. The Development Action Plan would provide a road map to the GoR for the implementation of the study's recommendations, including the use of e-governance and capacity building as needed in areas like budget preparation,

[3] Key fiscal goals of relevance identified in Rajasthan – Closing the Development Gap are: (1) to sustain fiscal adjustment by (i) implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, and (ii) preparation of a Medium-Term Fiscal Plan (MTFP); (2) to improve public expenditure composition and quality of expenditure; and (3) to increase public expenditure effectiveness.

revenue research, cash management, internal audit etc. The implementation of the Development Action Plan to be monitored at the level of the Chief Secretary.

39. The recommendations of the study relating to individual components of the PFMA system are summarized in the Attachment to the executive summary.

Summary of Recommendations

(A) Budget Preparation

1. Incidence of Supplementary Grants 80 per cent by numbers and 25 per cent by amounts unacceptably high; analyze and examine the reasons for the high incidence of Supplementary Grants and minimize the need for obtaining Supplementary Grants.

2. Analyze and examine the reasons for conditional approval to budget provisions. Minimize the need for post-budget approvals.

3. In line with the prescribed requirement of zero based budgeting approach, carry out critical appraisal of all programs and schemes at reasonable intervals with a view to discontinuing those that have lost their relevance or priority. Reflect the result of such appraisals in the forthcoming budget.

4. Ensure that the budget proposal of a department as a whole is ready well in time for priority setting by the Administrative Secretary who should have a more proactive role.

5. Prepare performance budgets in the manner prescribed in the Budget Manual; performance budgets should be vetted by the Planning Department and the Finance Department.

6. Prioritize the budget in favor of last mile projects (after comparative detailed financial analysis of other projects) for their early completion and fructification.

7. Prepare and disclose forward recurrent estimates on program/scheme basis. Also disclose the out-year recurrent costs for new capital projects.

8. Strengthen the existing revenue research units with capacity for sensitivity analysis, calculation of tax expenditures, identification of additional sources of revenues etc.

9. Adopt a Medium Term Fiscal Program (MTFP) that commits the Government to a clear fiscal adjustment path will enhance the credibility of the fiscal adjustment program.

(B) Budget Approval

1. In addition to implementing the Rajasthan Fiscal Responsibilities and Budget Management Act 2005, prepare the Budget Summary on the lines recommended in the Reserve Bank of India Report. Also disclose the amounts of tax expenditure, additional resource mobilization and the expenditure arrears.

2. Budget documents should disclose information on all receipts and expenditure relating to programs and schemes executed through the GoR entities.

3. Explain the reasons for variations between the B.E.s and R.E.s of the current year and between the current year R.E.s and next year B.E.s.

4. Present with the budget a statement on the implementation of the announcements made in the last year's budget.

5. The detailed examination of all Demands for Grants by House Committees, as in some other jurisdictions and in the Union Government will enhance the effectiveness of legislative scrutiny of the budget and promote accountability. These committees should have the attributes of similar committees of the Union Parliament.

(C) Budget Execution

1. Critically review the reasons for budget variations and streamline and implement the monitoring system.

2. Install a more scientific cash management system to meet the requirement of enhanced empowerment of the State Government for market borrowing.

3. Prepare and implement a time-bound program for the clearance of arrears in assessment of revenue receipts; follow up cases of under-assessments and hold the officers accountable.

4. Install advanced computerized systems for monitoring expenditure on a periodic basis.

5. Electronically connect sub treasuries on an on line basis with treasuries.

6. Maintain a time series analysis of the trends in monthly revenue and expenditure to support better cash management.

7. Enhance fiscal transparency by providing public access to information within the year on budget implementation. Quarterly reports with data on budget implementation and a commentary on major fiscal developments posted in the Finance Department web site could help to increase accountability and public confidence in the management of the state's resources.

(D) Internal Control Including Internal Audit

1. Improve compliance with the prescribed internal control system through appropriate incentives. Carry out review of internal control system at suitable intervals.

2. Prepare performance indicators for programs and schemes and monitor the performance.

3. Furnish utilization certificates of grants-in-aid paid to local bodies and others. Introduce a system of obtaining performance-cum-achievement reports from the grantee institutions. In the cases of large amounts of grants-in-aid, say, in excess of Rs. 10 million the MOU system may be considered.

4. Modernize the internal audit system with shift of emphasis on systems, and outputs/outcomes and follow risk- based approach. There should be an integrated internal audit unit for the department as a whole reporting to the Administrative Secretary. Internal audit should be Secretary-driven.

5. Prepare consolidated reports of receipt and expenditure for the information of the Administrative Secretary.

6. Take steps to increase the returns from investments in Public Sector Enterprises. Clear the arrears in accounts and clean up the balance sheets. Strengthen the internal audit set up in the Public Sector Enterprises.

7. Explicitly define the role and responsibility of the Administrative Secretary as the Chief Accounting Authority of the Department. Strengthen the institution of Financial Advisor.

8. Strengthen Guarantee management with accretions to the Guarantee Redemption Fund commensurate with the outstanding amount of guarantees duly classified by risk.

(E) Government Accounts

1. Ensure regular reconciliation of departmental figures of accounts with the books of the Accountant General (Accounts & Entitlement) every month as prescribed.

2. Minimize the transfers to Deposit Heads – personal ledger accounts (PLAs).

3. Proactively cooperate with the Accountant General to clear and minimize the balances under the Suspense Heads.

4. Pending switchover to accrual based accounting; enter into a dialogue with the Accountant General for providing additional information on the lines recommended by the Twelfth Finance Commission.

5. Work with the Accountant General to build the road map for the move towards introducing accrual accounting and conducting pilots as appropriate in line with similar developments at the central government.

(F) Financial Reporting

1. Ensure that explanations for variations between budgets and actuals are supplied in the Appropriation Accounts in all cases.

2. Enter into dialogue with the Accountant General for enhancement of the frequency as well as the contents of the Accountant General's Appreciation Note on Accounts. A monthly financial report of the receipts and expenditure, aggregated up to the desired level, of each administrative department for the Administrative Secretary may be considered.

3. Place monthly key financial data on departmental and aggregate performance in the public domain using the web site of the Government of Rajasthan.

4. Ensure wider dissemination of the document Accounts at a Glance.

(G) External Audit

1. Ensure timely response to audit observations at each stage. This is critical for audit impact. Senior Officers must set an example. Senior Officers should review the response to audit during their inspections of the subordinate offices.

2. Audit Committees should meet more frequently and in a purposeful manner prepared with final action to the satisfaction of audit.

3. Monitor the progress of response to material proposed for inclusion in the Audit Report at the level of the Chief Secretary.

4. Consider the extent of responsiveness to audit while writing the Annual Confidential Reports.

5. Enter into dialogue with the Accountant General for further deepening the relationship between the executive and audit. A quarterly management letter from the Accountant General to each Administrative Secretary could be a useful addition to the current system of interaction between audit and executive.

6. Approach the Comptroller & Auditor General to expand the coverage of its performance audits with a view to improving value for money and reducing fiduciary risk.

(H) Legislative Scrutiny

1. Ensure that the *suo moto* self-explanatory notes are sent to the Legislative Assembly Secretariat within the prescribed period after the presentation of the Audit Reports.

2. Ensure that the Action Taken Notes on PAC/COPU recommendations are sent to the Legislative Assembly Secretariat within the prescribed period after the presentation of the PAC/COPU Reports.

3. Monitor the progress of submission of *suo moto* self-explanatory notes and Action Taken Notes to the Legislative Assembly Secretariat at the level of the Chief Secretary. Consider this while writing the Confidential Report.

4. Build appropriate strategies for clearing the backlog of arrears in the examination of Audit Reports with appropriate prioritization so that the Committees can follow up on the latest reports. This could include an enlargement of the role of the Accountant General in relation to some of the older Audit Reports as well as according of higher priority to the more recent Audit Reports.

5. Decide on the twin issues of the tenure of members of the oversight committees and holding public hearings of the Public Accounts Committee and the Public Undertakings Committee. The Committees may revisit the issue of public access to the evidence of the departmental witnesses in the light of a provision of the Central - Right to Information Act, 2005, in terms of which the information that cannot be denied to a State legislature shall also not be denied to any person.

6. Provide information on the follow up action on audit and oversight committee observations in the departmental Annual Administrative Reports as being introduced in the case of important Departments of the Central Government.

(I) Access/Right to Financial Information

1. Make preparations for the implementation of the Central law; notify the Rules, issue suitable instructions, notify/appoint information officers, appoint independent Information Commissioner.

2. Initiate action to propagate the provisions of the law; earmark and disclose commitment of financial resources for the purpose.

3. Promote and enhance culture of transparency with mindset change in the bureaucracy – with leadership provided by departmental secretaries.

4. Streamline information systems in line with sound records management practices.

5. Develop and implement training programs for officials responsible for providing access on fast track basis.

CHAPTER 1 : INTRODUCTION

Background and Introduction

1. Democratic governments all over the world are undertaking reforms to their public expenditure management system. Reforms are aimed at bringing about greater relevance, transparency, accountability and user friendly reporting for stakeholders. Improving the quality of public expenditure has also assumed importance across India. Using public expenditure efficiently and effectively is becoming as important as mobilizing and allocating public resources well.

2. The Country Assistance Strategy for India has placed emphasis for modernizing the institutions of public financial management and accountability and undertaking such diagnostic work as necessary to help build capacity for better public sector financial management. Financial Accountability Assessments (SFAAs) are carried out in all States where the Bank's engagement is or will likely to be significant. These assessments have both a developmental and fiduciary perspective. Similar assessments have been prepared earlier for other states including Karnataka, Orissa, Uttar Pradesh among others.

3. Rajasthan is India's largest state by area, located in the northwestern part of the subcontinent. The State, though primarily an agricultural and pastoral economy, has the second largest mineral resources in India. With a population of over 56.5 million, three-quarters of which reside in rural areas, an estimated 8.65 million people were living below the poverty line in 1999-00 (3.8% of India's poor). Although the financial position of the State has improved in the past two years, it remains fragile. The outstanding debt has been rising steadily for several years and has now exceeded Rs. 530 billion. A synopsis of the finances of the GoR is given in Annexure I.

4. This study on the Public Financial Management and Accountability (PFMA) System of the Government of Rajasthan (GoR) seeks to complement the World Bank Report, *Rajasthan – Closing the Development Gap* (August 2005). The Report pointed out that despite being considered one of India's lagging States, Rajasthan made impressive progress in the 1980 & 1990s. Since 1999, however, new challenges have appeared, threatening further progress. Per capita growth rates have declined. Notwithstanding improvements in fiscal performance over the past two years, the fiscal position remains fragile. Public debt, already high, continues to increase. Care needs to be taken that the increase in capital spending produces the desired impact on growth, instead of only adding to the debt burden, and that mounting off-budget liabilities, principally in the power sector are managed. The outstanding amount of guarantees as on March 31 2004 stood at Rs. 170 billion, or 16 percent of Gross State Domestic Product (GSDP). The guarantees policy of the government has been quite liberal in the past, with the government limiting outstanding guarantees to the estimated receipts in the consolidated fund of the State at the end of the year. Increased interest payments, outstanding fiscal liabilities, ratio of fiscal liabilities to the GSDP, and

reduced availability of borrowed funds after providing the interest and repayment had been listed as some of adverse indicators of the State's fiscal position in the Comptroller and Auditor General of India (CAG) Report for 2003-04.[1] Cognizant of such challenges, the GoR has started implementing policy reforms aimed at restructuring the state's debt, reducing the revenue deficit and improving the quality of expenditure.

5. A country wide study of the perception of petty corruption ranked Rajasthan as the 5th highest among 20 major states.

Exhibit 1 – India Corruption Study 2005

STATE	COMPOSITE INDEX	RANK
Kerala	240	1
Himachal Pradesh	301	2
Gujarat	417	3
Andhra Pradesh	421	4
Maharashtra	433	5
Chattisgarh	445	6
Punjab	459	7
West Bengal	461	8
Orissa	475	9
Uttar Pradesh	491	10
Delhi	496	11
Tamil Nadu	509	12
Haryana	516	13
Jharkhand	520	14
Assam	542	15
Rajasthan	**543**	**16**
Karnataka	576	17
MP	584	18
J&K	655	19
Bihar	695	20

Source: Study by Centre for Media Studies, June 30, 2005

6. The purpose of this SFAA study is to support the ongoing efforts of the GoR for better financial management and control in conjunction with efforts towards fiscal consolidation. The study was undertaken based on consultations with the then Principal Secretary Finance in conjunction with the economic analysis undertaken by the World Bank for the Report issued in August 2005.

7. There is a growing appreciation that development is an outcome of efficient institutions rather than the other way round.[2] Further, the sustainability of fiscal

[1] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

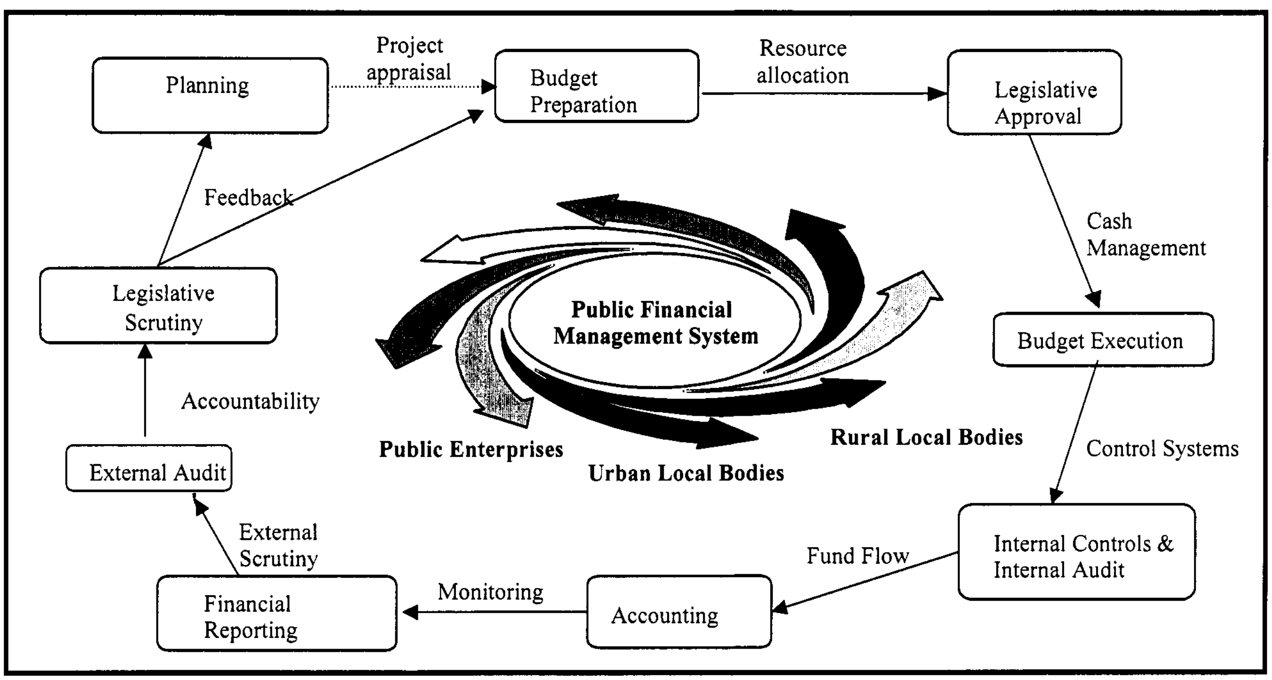
[2] *Government of India, Planning Commission, Approach paper to the Tenth five Year Plan (2002-2007)*

consolidation, as prescribed in the Rajasthan Fiscal Responsibilities and Budget Management Act, 2005, is as dependent on fiduciary considerations as on technical and administrative capacity. Prudent financial management of public resources ensures better delivery of public services, enhanced productivity, minimization of fiduciary risk, greater accountability to stake holders, accelerated development and promotes overall fiscal consolidation through minimization of inputs and maximization of outputs and outcomes. In this context, complementing the World Bank Report, *Rajasthan – Closing the Development Gap*, the study critically examines the GoR current PFMA, identifies its strengths and explores the opportunities for further improvement for the more economical, efficient and effective use of public resources.

Scope of the Study

8. The study ranges over the different components of PFMA including budget preparation, approval and execution, internal control including internal audit, Government accounts and financial reporting, and external audit and legislative scrutiny. (See diagram 1 below). The study covers the public access/right to financial information as an instrument of promoting transparency in and accountability of administration.

Diagram 1
Public Financial Management and Accountability System



9. The urban local bodies and the Panchayati Raj Institutions are outside the scope of this study. Typically, weaknesses found in financial control at the state level are even more apparent in local levels of government, and capacity to deal with these even less. The

objective of re-invigorating local government will depend critically on further work on PFM issues at the local level—perhaps drawing on the principles developed in the SFAA and applying these at lower levels of government for which separate studies are already under way.

10. In regard to the public sector undertakings the scope is limited to the extent of Government's fiduciary obligations relating to these entities. A broad view of fiscal risk needs to take into account risks arising from quasi-fiscal activities that government undertakes through its enterprises.

Methodology

11. This SFAA Report has been prepared mainly through a desk study of the available literature supplemented by discussions with the senior officials of GoR. Apart from making use of the information available in the Bank's Report, "Closing the Development Gap" particularly Chapter 3, "Increasing Fiscal Space for Development and Using It Effectively"; and Chapter 4 "Improving Governance and Public Service Delivery", published literature of the GoR like the budget documents, annual reports of the departments, manuals and the Audit Reports of the Comptroller and Auditor General of India as well as the annual administrative reports of the Offices of the CAG in Rajasthan have been inspected.

12. The nature and extent of analyses supporting the study has been influenced by the GoR's decision to restrict Bank access to information generally available in the public domain. Observations and recommendations communicated by senior officials of GoR for consideration and incorporation in the Report were very useful.

13. The Centre for Good Governance at Jaipur was appointed as a technical collaborator to the team conducting the assessment. CGG is charged with the responsibility to prepare the Development Action Plan (DAP) and in consultation with the GoR.

General Observations

14. GoR's PFMA System as a whole presents a mixed picture. The systems and procedures are well documented for the efficient, economic and effective management of public resources; and these compare favorably with the PFMA systems of the other comparable jurisdictions in the country. The systems and procedures have also been subjected to careful examination in the past in the quest for improved performance[3]. Additionally central institutions govern some of the components of PFMA particularly government accounts, financial reporting and external audit. Furthermore Central Government practices often act as the role model and in the context of transfer of funds between levels of government significantly impact the financial management at the level of the State Government. A main message of this study is that the PFMA System of GoR is in need of revitalization and modernization in certain important

[3] For example Bhanot Committee, Shiv Charan Mathur Committee; currently an Expenditure Review Commission is engaged on the task of identifying areas of economies in Government expenditure.

respects. Some aspects of the colonial model on which the system has been operating since independence are now out of date. However, incremental reforms of similar systems in countries which share a common Commonwealth or Westminster approach to PFMA have ensured reasonably high levels of efficiency, effectiveness and public accountability. Hence reform of the Rajasthan PFMA system in ways which draw upon the lessons from jurisdictions with similar institutional heritages is well worth the effort.

15. There is a growing recognition that outlays do not necessarily mean outcomes[4] and the focus of PFMA has to shift from mere incurring of expenditure to getting the best value for the moneys spent in terms of the desired outcomes and cost effective delivery of departmental services. This involves pervasive changes throughout the entire PFMA cycle commencing from budget preparation and presentation and including implementation and control to external audit and legislative scrutiny.

16. GoR is commended for having recognized the importance of providing public access to information that saw its expression in the enactment of Rajasthan - Right to Information Act in 2000 ahead of most other States in the country and even the Central Government[5]. The global experience with such legislation is that when properly structured and implemented it promotes public confidence in Government, higher productivity of resources and greater public participation in developmental process. The recently enacted Right to Information Act, 2005 by the Central Government which applies to all States in the country including the State of Rajasthan is much wider in its ambit enlarges the scope of *suo moto* disclosures and narrowly defines the exclusions and thereby is likely to witness enhanced demand for accountability from the stakeholders for the efficient and effective use of public money. This further underscores the need for making substantive improvements in the PFMA system.

17. While opportunities for further improvement undoubtedly exist in the existing design of PFMA system an equally important issue, as in other jurisdictions, is one of better compliance with the prescribed rules, regulations and procedures. The compliance gap, not uncommon in other States, enhances the fiduciary risk and reduces the optimal utilization of resources. The high level of leakages in the targeted public distribution system is a case in point.[6] States have been grouped together based on the proportion of subsidized grains leaked out of the distribution system.

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[4] Government of India Fiscal Policy Strategy Statement laid before the Parliament with the Budget 2005-06

[5] The central Freedom of Information Act, 2000 remained unimplemented in the absence of the relevant rules to be notified thereunder; the said Act has been repealed by the Right to Information Act, 2005.

[6] Government of India, Planning Commission, Performance Evaluation of Targeted Public Distribution System (2005).

Exhibit 2 - Leakage of Food grains – Ranking of States

Abnormal Leakage (More than 75%)	**Very High Leakage (50%-75%)**	**High Leakage (25-50%)**	**Low Leakage (upto 25%)**
1	**2**	**3**	**4**
Bihar and Punjab	Haryana, Madhya Pradesh and Uttar Pradesh	Assam, Gujrat, Himachal Pradesh, Karnataka, Maharashtra and **Rajasthan**	Andhra Pradesh, Kerala, Orissa, Tamil Nadu and West Bengal

18. The challenge for GoR lies in devising a judicious mix of incentives and disincentives for minimizing fraud, waste and abuse of public funds. The need for capacity building is also indicated in several areas such as, budget preparation, revenue forecasting, cash management, records management and internal audit.

19. Improvements to the public financial management and accountability system would require extensive use of e-governance. GoR has already made some progress in areas such as the computerization of treasuries. Some of the initiatives underway include e-Mitra, land record computerization project, computerization of activities of the Departments of Commercial Taxes, Excise, Transport and Registration and Stamps, Secretariat networking, videoconferencing facility etc. This modernization needs to be further built upon with a view to the development of a management information system that is both functional and more performance oriented than the existing inputs based style of operational management and control. Constructive use of publicly available reports on the internet could help to address a number of the accountability and responsibility problems raised in the report.

20. In this background of modernization the role of the departmental Secretary to Government becomes crucial and assumes a much wider responsibility in line with the Central Government where there is already an embedded role for the Secretary as the Chief Accounting Authority.[7] Within the framework of Government policy, the departmental budget and its implementation as well as accounting, financial reporting, internal control including internal audit, will have to be Secretary-driven and the Secretary will be expected to take full responsibility for the economic, efficient, effective and transparent use of the resources of his department for achieving the stated departmental objectives. The associated governance issues like the role of internal audit, monitoring and evaluation etc. would also have to be revisited.

21. There are a number of similar reforms underway to the system of public expenditure management at the Central Government. An Administrative Reform Commission has

[7] See Rule 64 of Government of India General Financial Rules 2005.

been appointed with a mandate to promote what could be far reaching reforms to public administration. The budget management system is to move its emphasis from cash outlays to development outcomes; an Outcome Budget has been presented for the first time in August 2005. The cash based system for accounting is to be replaced with an accrual based system. Performance Indicators are being established for better monitoring and evaluation of program delivery systems. The duties, responsibilities and powers of financial advisors in administrative ministries have been re-defined. All these are aimed at improving the public financial management and accountability system in line with best international practice. These reforms are likely to stimulate further demand for a more "e" based modern financial management and control systems at the centre and at the states particularly in the background of significant amounts of expenditure incurred on the Central sector and Centrally sponsored schemes. There is an opportunity for Rajasthan to make concurrent reforms to its systems and procedures and bring them into line with best practice.

22. A striking message of this report is that of a general failure in Rajasthan to assign overall responsibility for financial management and despite reasonable formal systems, a lack of effective mechanisms of accountability. These points are made at various places in this report and suggestions for reform are made, but the central importance of addressing these issues in a coordinated strategy has to be emphasized. GoR may wish to depute one senior official in the Finance Department to lead the effort required for modernizing the system of public financial management and accountability system and to develop a roadmap for strengthening the system including performance management and moving towards accrual-based accounting in conjunction with an outcome-based budget system.

23. Fiscal consolidation and closing the development gap at Rajasthan is critically dependent on improvements in the PFMA. Addressing complex issues raised in this report would appear to require a very strong high-level effort driven by the Finance Department and with full Cabinet support. GoR needs to prepare, monitor and implement a time-bound Development Action Plan with intermediate milestones for modernization and further strengthening the PFMA. The State's Centre for Good Governance working with the Finance Department is well placed to take responsibility for designing and implementing the Development Action Plan including *how* to proceed with the reform process. The Development Action Plan would also incorporate the measures required for capacity building in areas like budgeting, cash management, revenue research, internal audit etc; as warranted. A nodal monitoring unit functioning under the Principal Secretary Finance should coordinate and oversee the process with the active collaboration of the Centre for Good Governance and report regularly to the Chief Secretary.

CHAPTER 2 : BUDGET PREPARATION

Institutional Framework and Processes

1. In a democratic polity the purpose of budgets has to be seen as one transcending beyond the mere statement of income and expenditure of Government and assets and liabilities to the articulation of hopes and aspirations of the people and their actualization within the framework of transparency and accountability. The requirement of preparing an annual budget is prescribed in the Constitution of India. Article 202 of the Constitution prescribes that an Annual Financial Statement (popularly known as the Budget) shall be presented to the legislature setting out the estimates of the receipts and expenditure of the State for that year.

2. GoR Budget Manual and the Annual Budget Circular issued by the Finance Department some time in August every year set out in sufficient detail the procedure for the preparation of the annual budget by the line departments, its finalization by the Finance Department through the process of examination by the Budget Finalization Committee (BFC) and consolidation for being presented before the legislature. The Finance Department /Minister may hold pre-budget meetings with the stakeholders to know the views of the cross section of civil society.

3. The Budget Manual and the Annual Budget Circular require the adoption of zero-based budgeting approach. GoR has prescribed a list of over 30 departments that are required to prepare Performance Budgets. The Budget Manual contains detailed instructions for the preparation of Performance Budgets as well as the forms in which these should be prepared. The Performance Budgets are required to be placed by the line departments before the State legislature in time for discussion of the Demands for Grants. The Finance Department and the Planning Department are not associated with the preparation of Performance Budgets.

4. Designated Controlling Officers[8] prepare the budget proposals relating to the non-Plan expenditure and the ongoing Plan schemes and forward them to the Finance Department. Similar proposals for new schemes are formulated and sent only after receipt of intimation of sectoral ceilings from the Planning Department. The proposals are scrutinized and examined by the BFC convened by the Finance Department on which both the line department and the Planning Department are adequately represented. The draft minutes of the meeting of the BFC are made available to the Secretary of the line department and the Secretary Planning Department. The Finance Department compiles the State budget from the finalized departmental estimates.

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[8]GoR Budget Manual defines Controlling officer as a Head of Department or any other departmental officer who is entrusted with the responsibility of controlling and incurring of expenditure and/or collection of revenue by the authorities subordinate to the department. For every Grant, one officer (or more in some cases), generally the Head of the Department is nominated as the Controlling Officer, who is responsible for controlling the expenditure against the various grants placed at his disposal.

Strengths and Opportunities for Improvement

5. There are several positive features of budgetary process. For example, the systems and procedures are comprehensively documented and the roles and responsibilities are unambiguously defined with predictability and transparency about the process.

6. GoR Rules prescribe adequate participation, within the framework of an over-all policy, of the line departments in budget preparation, both at the initial formulation of proposals and at their subsequent scrutiny and finalization through the BFC. The participation of the Planning Department in the BFC and the preparation of Plan estimates in accordance with the pre-determined Plan ceilings provide an inbuilt mechanism that ensures that the policy objectives are adequately reflected in the budget. The GoR current practice of having one common functionary for the Finance Department and the Planning Department at the senior level of the Principal Secretary institutionalizes and reinforces such integration of the budgetary process with the policy objectives. Nevertheless, the potential for full integration and harmonization at the budget formulation stage remains unrealized. Rajasthan retains a dualistic budgeting framework in which formal efforts to achieve integration and harmonization only occur at the end of the process.

7. However, since the budget estimates (BE) are prepared, examined and finalized by the BFC in respect of each Controlling Officer (Head of Department), the consolidated position regarding all Controlling Officers in an Administrative Department as a whole may not emerge till a very late stage of the budgetary exercise for effective priority setting. There is thus the need for the more proactive role of the Administrative Secretary in the early stages of budget preparation.

8. There is another concern. The incidence of Supplementary Grants both in terms of numbers of Grants and the amounts involved is very high. Supplementary Grants have been obtained for more than 80 per cent of the Grants, and the amounts involved have been as high as 25 per cent. This reflects on the quality of initial budgeting and undermined the usefulness of the initial budget presented to the Assembly as an instrument to establish hard budget constraints.

9. It is also seen that the proposals for new items (Plan as well as non-Plan) are generally cleared at the budget stage with the caveat of a further reference, examination and approval on file. The provisional approval with the requirement of subsequent clearance impacts the downstream exercise of budget execution, planning, cash forecasting and implementation since (unlike other expenditure) in such cases mere approval of budget does not authorize the departments to start its implementation. Pending final clearance of such expenditure, the line departments are unable to go ahead with planning and implementation and the forecasts of cash flow will remain at best tentative.

Table 1 – Budget Preparation

Strengths	Opportunities for Improvement
Budget Preparation • Comprehensively documented systems and procedures • Line departments are actively involved • Institutionalized arrangement for the integration of the planning and the budgetary processes • Rules prescribe for zero based budgeting • Rules prescribe for preparation of performance budgets • Revenue research cells exist in the Department of Commercial Taxes as well at the Secretariat level • Enactment of the Fiscal Responsibilities and Budget Management law in 2005; implementation of this law will improve fiscal discipline and promote transparency	• Budget proposals examined in respect of each Head of Department; consolidated picture relating to any particular Grant does not emerge till towards the end of the budgetary exercise • New items of expenditure generally approved for inclusion in the budget subject to subsequent clearance on file; minimize the incidence of expenditure requiring post budget approval of Finance Department • Incidence of Supplementary Budgets high both in terms of the number of Grants (over 80 percent) and amounts (about 20- 25 per cent • Large number of projects remaining incomplete; prescribe and ensure explicit emphasis on prioritization in favor of last mile projects; this will minimize unproductive investments • Budget normally prepared on incremental basis; carry out critical review of all programs and schemes at reasonable intervals and reflect the result of such reviews in the budget • Prepare performance budgets as prescribed in the instructions; Finance Department and Planning Department should vet the performance budgets. • Prepare and disclose forward recurrent estimates on plan schemes/programs as well as the out year recurrent costs for new capital projects • Strengthen the revenue research units with capacity for sensitivity analyses, identification of newer sources of revenue etc. • Intensify efforts to enhance non-tax revenue in line with the Memorandum of Undertaking signed with GOI.

10. Further, despite the instructions contained in the GoR Budget Manual to follow a zero based budgeting approach, which are reiterated in the Annual Budget Circular, the estimates are prepared essentially on incremental basis. Consequently, schemes and activities that cease to be as relevant in the changing scenario run the risk of being budgeted regardless of their continued fruitfulness. For example, in the Secondary Education Department in 252 cases schools/faculties that were found to be uneconomical as per the norms prescribed by GoR were being continued in six districts alone involving minimum annual expenditure of Rs. 165 million on salaries[9].

11. Also the budget focuses mainly on financial inputs. GoR instructions for the preparation of performance budgets are in line with the country best practices, but the prescribed instructions are not always followed.

[9] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

12. The Departments do not prepare the Performance Budgets in the form and in the manner prescribed in the Budget Manual; there is also no uniformity in the matter. The object-wise details of expenditure are not provided, the financial and physical targets and achievements are not correlated and the unit cost of providing the service is not disclosed. The information on the actuals vs. revised estimates of the preceding year is not given.[10]

13. Although the State Directorate of Evaluation under the Planning Department carries out periodical evaluation of a selected number of schemes, there is little evidence of such evaluations featuring in or are being factored in the Performance Budgets of the administrative departments. The evaluation challenge in Rajasthan is compounded by the facts that the largest category of capital expenditures is for major irrigation with a planned gestation period of 15 to 20 years and ex post actual gestation periods of 25 to 35 years. One way to achieve improvements in evaluation work on irrigation projects would be to have the C&AG undertake a ex poste 'lessons learned' type evaluation of large irrigation projects from inception to completion.

14. Neither the GoR Budget Manual nor the Annual Budget Circular explicitly envisages conscious and structured prioritization of projects and schemes for the early completion of ongoing works. There were 374 incomplete projects as of March 2004, in which Rs. 25.59 billion were blocked. Of these 133 projects on which Rs. 19.84 billion had been spent had not been completed for periods ranging from 5 to 41 years.[11] Under a Union Government programme intended for accelerating the completion of ongoing projects that were in an advanced stage of completion, GoR spent Rs. 2 billion on two projects, which in terms of expenditure incurred so far had registered less than 33 per cent progress[12].

15. The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005, prescribes the targets of revenue and fiscal deficit, fiscal deficit, outstanding debt etc. to be achieved by the GoR. One of the objectives of the Act is to ensure fiscal stability in Government finances. Careful and ongoing monitoring of actuals will be necessary to track progress. As well the executive could advise the Assembly and the public concerning which fiscal indicators and benchmarks are uppermost in importance in its monitoring activities. The Rules under the Act are being notified.

16. GoR's own revenue receipts have witnessed a robust growth in recent years. GoR tax receipts are monitored on a daily basis and an incentive system for achieving and

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[10] Based on a study of the Performance Budgets of the Agriculture Department, Higher Education Department, Public Health Engineering Department and the Rural Development Department for 2004-2005. In the Department of Power the amount of subsidy to be provided is not detailed by unit cost and type of market segment.

[11] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan. The Report also mentions that the expenditure of over Rs.2.9 billion incurred on construction of Sidhmukh and Nohar Irrigation Projects had remained unfruitful since the water courses were not constructed due to non-completion of micro-canalization survey for want of budget provision.

[12] Report of the Comptroller and Auditor General of India for the years ended 31 March 2003 (Civil) Government of Rajasthan

exceeding tax receipts is in place. Revenue research units exist in the Commercial Taxes Department and in the Secretariat.

17. There is scope for increasing non tax revenue. The position of receipts on account of user charges is less satisfactory. For example, a relatively modest amount of Rs.339 million was realized during 2003-2004 from 5 major and 12 medium irrigation projects with a capital outlay of Rs.32. 41 billion, i.e. just about one per cent that did not cover even the direct working expenses.

Way Forward

18. While GoR has a good laid down system of preparation of budget, there are several opportunities for further improvement. GoR needs to analyze the principal reasons for the high incidence of Supplementary Grants for appropriate action. The incidence of interim approvals of expenditure with the requirement of a subsequent clearance on the file needs to be minimized. This will result in better empowerment of the line departments, promote accountability, improve the quality of cash flow projections and cash management and quicken the execution of new schemes for their early fruition.

19. The line department and the Finance Department should jointly carry out a critical appraisal of all programs and schemes at reasonable intervals. The result of such an appraisal should be reflected in the ensuing budget with a clear disclosure of the relocation of manpower and other resources currently deployed on programs and schemes that are proposed to be discontinued as a result of the periodic appraisal. This will ensure that programs and schemes with diminished relevance and utility in the changed scenario give way to higher priority activities and provide better outcome from the available resources.

20. In order to be really meaningful the Performance Budget should be prepared in accordance with the procedure prescribed in the Budget Manual and vetted by the Finance Department and the Planning Department before these are finalized. Properly prepared Performance Budgets would immediately shift the focus from input budgeting to output budgeting and provide the basis for outcome budgeting. Credible outcome indicators need to be developed, preferably in consultation with the Planning Commission, Government of India where considerable work on this subject is already under way.

21. There is need for explicit prioritization in favor of early completion of the ongoing projects (after comparative detailed analysis of other projects) so that the benefits from these projects start flowing at the earliest and the incidence of unproductive expenditure blocked in incomplete projects is minimized.

22. GoR needs to prepare forward recurrent estimates on programme/scheme basis. GoR also needs to prepare and disclose the out year recurrent costs for new capital projects for macro economic stability.

23. Medium Term Fiscal Program (MTFP) that commits the Government to a clear fiscal adjustment path will enhance the credibility of the fiscal adjustment program. Although the FRBM commits the GoR to explicit deficit targets, provides formulas for some of the variables, and requires that assumptions on which targets are based be clarified, it does not stipulate that the State prepare a Medium Term Fiscal Plan laying out the plan of how targets will be achieved. A medium term program that clearly identifies the medium term adjustment path, based on well articulated fiscal adjustment policies, will help to make the Government's commitment to fiscal reforms more credible.

24. The budget for an administrative department should be prepared and consolidated well in time for priority setting. The Administrative Secretary will have to assume a more proactive role in the budgetary process. He should set out the priorities and review the justification for the ongoing schemes before these are included in the budget. For this the budget of a department as a whole should be available with him well in time. Simultaneous consideration of budgets of departments that have overlapping objectives e.g., employment generation would provide synergy.

25. The revenue research units need to be strengthened with capacity for sensitivity analysis, calculating the tax expenditure as well as identifying additional sources of revenue. This will add greater realism to the estimates of revenue receipts, promote better knowledge and disclosure of the financial implications of tax proposals and help identify additional sources of revenue.

26. GoR also needs to intensify its efforts to enhance non-tax revenues in line with the commitments made in the Memorandum of Undertaking between the GoR and the GoI signed in March 2003 (See Box - 2). Improving cost recovery in non-tax user charges can be started by carrying out a review of the gap between the cost of supply of government services and infrastructure and payments, and identifying the areas where the consumers will be willing to get better services for higher user charges.[13] The Department of Finance could take the lead for monitoring and encouraging revisions to user charges as and when necessary.

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[13] The World Bank Report Rajasthan Closing the Development Gap (August 2005); some of the measures suggested in the report are (i) auctioning of mineral leases in lot sizes for a period of time long enough to attract better bidder response, (ii) setting of higher rates of tuition fees for non-exempt categories of students in engineering and medical colleges and other higher and professional institutions, (iii) levy of user charges for specialized curative care services in large tertiary hospitals and selected secondary hospitals, and (iv)a water rate structure that reflects scarcity value of water.

BOX – 2
Extract from Memorandum of Undertaking
Government of Rajasthan and Government of India – March 2003

Non Tax Measures

A. Restructure the role of Government in economic activities to enable commercialization and out sourcing, wherever possible. Areas of economic activities for commercialization shall be identified and process started by 1.4.2003.

B. Ensure that the ultimate responsibility of running services is vested with statutory non-Government bodies.

(i) User charges should be index-linked to wholesale price index and the process of periodic revision should become automatic. Indexation of user charges to be completed and introduced by 30.6.2003. State Government will draw up guidelines enabling the departments to increase the user charges annually on the basis of indexation during this time frame.

(ii) Indexation of bus fares to the input costs to be introduced by 31.12.2002.

(iii) Fees of educational institutions have already been revised in 2000-01. This will again be revised in 2005. In major hospitals, Medicare Relief Societies have been formed. These societies are self financing bodies and fix up hospital charges on a no-loss-no profit basis.

(iv) Water rates (Irrigation rates) for all categories of users:-

(a) Determine the subsidy element in cost recovery as a percentage of O&M cost by 1.6.2003.
(b) Index these rates and progressively increase to cover 100% of O&M by 1.6.2007.

CHAPTER 3 : BUDGET APPROVAL

Institutional Framework and Processes

1. Legislative approval of the budget is the essence of democracy. Under the Constitution no expenditure can be incurred from the Consolidated Fund nor can any tax be levied without the approval of the State Legislature. The legislature provides the necessary authorization through Appropriation Act and Finance Act. The effectiveness of legislative approval of the budget is critically dependent upon the information made available to legislators and its scrutiny at the legislature.

2. The budget documents which are furnished to the legislature are listed in Annexure II. The literature includes Statements of Investments, Loans and Guarantees, Targets and Achievements and Funding Pattern of Annual Plan. These are all useful documents.

3. GoR also brings out the following two other documents viz; *Budget at a Glance* and *Budget Study*; these are prepared by the State Government's Directorate of Economics and Statistics in collaboration with the Finance Department and contain useful budget analysis. Additionally, GoR brings out *an Economic and Purpose Classification of the State Government Budget*. The contents of these documents are also briefly described in Annexure II.

4. The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005, requires the GoR to present the following with the Annual Budget, namely (a) Medium Term Fiscal Policy Statement and (b) Fiscal Policy Strategy Statement (See Box 3). The Act requires the GoR to disclose *inter alia* the annual pensionary liabilities of the Government calculated initially on the trend forecasts and subsequently, after five years, on actuarial basis. Any significant changes in the accounting standards, policies and practices that impact on the computation of fiscal indicators shall also be disclosed.

Strengths and Opportunities for Improvement

5. GoR budget documents are fairly comprehensive and envisage sufficient disclosures, particularly with the implementation of the Fiscal Responsibilities and Budget Management Act. The position compares favorably with the other jurisdictions in the country. However, the information is scattered over several volumes and is not readily available in a reader-friendly manner.

BOX – 3

The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005

The Medium Term Fiscal Policy Statement shall set forth the fiscal objectives and strategic priorities of the State Government with clear enunciation of the underlying assumptions. In particular the Policy Statement shall include an assessment of sustainability relating to

(a) The balance between the revenue receipts and revenue expenditure;
(b) the use of capital receipts including borrowings for generating productive assets;
(c) the estimated yearly pensionary liabilities for the next ten years, worked out on trend forecast basis during the first five years and on actuarial basis thereafter.

The Fiscal Policy Strategy Statement shall inter alia contain
(a) the fiscal policies of the State Government for the ensuing financial year relating to revenue receipts and expenditure, borrowing and liabilities include guarantees, lending and investments, user charges on public goods/utilities and description of other activities such as guarantees and activities of the public sector undertakings which have potential budgetary implications;
(b) the strategic priorities of the State Government in the fiscal area for the ensuing financial year;
(c) key fiscal measures and the rationale for any major deviation in fiscal measures pertaining to revenue receipts, subsidy, expenditure, administered pricing, borrowings and other liabilities, including guarantees;
(d) evaluation of the current policies of the State Government.

6. GoR budget documents do *not* fully capture all receipts and expenditure that are administered through its entities and to that extent lack comprehensiveness. For example, the Union Government provides financial assistance for the implementation of several schemes that are administered by the State Government entities like the District Primary Education Programme that is co-funded by the Union Government and the State Government. However, the GoR budget documents disclose neither the amount of Central assistance nor the expenditure incurred there against and lack comprehensiveness to that extent. The precise extent of deficiency cannot be quantified since the related information was reportedly not available with the State Government.

7. Also, GoR budget documents do not disclose the additional resource mobilization, amount of tax expenditure, the amounts of implicit and explicit subsidies and the amounts of arrears outstanding. Although information regarding receipts from the Public Account is available, the extent of off-budget surrogate borrowing is not explicitly disclosed. During 2002-2004, Rs. 7.34 billion raised by market borrowing by two public sector enterprises viz; the Rajasthan State Road Transport Corporation and the Rajasthan State Minerals and Mines Ltd.

were kept in the Public Account to augment the resources of the State Government.[14] For further observations regarding the use of Public Account surpluses, please see Box 7 in Chapter 6.

Table 2 – Budget Approval

Strengths	Opportunities for Improvement
Budget Disclosures • GoR budget documents fairly comprehensive and detailed as in other States • GoR 'Budget At A Glance', 'Budget Summary' and 'Economic and Purpose Classification of the State Government Budget' highly informative documents with time series and sectoral analyses of receipts and expenditure • FRBM Act 2005 prescribes additional disclosures	*Budget Disclosures.* • Prepare Budget Summary on the lines of the RBI Report • Disclose tax expenditure, expenditure arrears, additional resource mobilization and the amounts of implicit and explicit subsidies • Disclose the amount of off budget borrowing • State the reasons for variations between the budget estimates, revised estimates and budget estimates for the forthcoming year in the Demand for Grants • Present along with the Budget, a statement on the implementation of the budget announcements made in the budget of the previous year • Reflect all expenditure incurred through GoR entities in Budget Documents • Prepare and notify the rules under the FRBM Act, 2005
Legislative Scrutiny • Legislative supremacy prescribed in the Constitution • No expenditure can be incurred from the Consolidated Fund without legislature's approval; budget must be presented to and passed by the legislature • The Rajasthan Legislative Assembly holds a general discussion on the budget; debates the Finance Bill; and discusses about one third of the total number of Demands for Grants every year.	*Legislative Scrutiny* • System of examination of Demands for Grants by House Committees will enhance the effectiveness of legislative scrutiny of the budget.

8. Although GoR budget documents mention the heads involving variations between Budget Estimates (BEs) and the Revised Estimates (REs) of the current year and between the REs of the current year and the BEs of the following year, the documents do not state the reasons for such variations. Such variations are indicative of the progress (or lack thereof) of various schemes as well as shifting priorities of Government.

9. According to the Rules of Procedure and Conduct of Business in Rajasthan State Assembly, the Assembly deals with the budget in two stages, namely (a) a general discussion and (b) voting on demands for grants. Two Estimates Committees have also been constituted on departmental basis to suggest economies, improvements in

[14] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

organization, efficiencies etc as well as alternative policies. The reports of these committees are not however linked with the passage of the budget.

10. The Rajasthan State Legislative Assembly generally discusses only about one third of the total number of grants. The system of Departmentally Related Standing Committees for the detailed discussion of the demands of each department does not exist. Consequently, a major portion of Government expenditure may escape up front legislative scrutiny.

Way Forward

11. GoR budget documents are fairly comprehensive but these need to be made more reader-friendly in order to promote informed debate and discussion and civil society participation. GoR should progressively move over to the presentation of a Budget Summary in the manner recommended by the Reserve Bank of India[15]. Consistent with the generally accepted norms of transparency, GoR also need to disclose the tax expenditure, the amount of additional resource mobilization, the amount of off budget borrowing and the amount of arrears outstanding.

12. GoR budget documents need to include the information on all Central Government receipts and expenditure for proper and complete depiction of expenditure on the schemes implemented through its entities for correlation with their outcomes. The existing administrative structure and mechanism are capable of capturing the amounts of Central Government assistance as well as the expenditure incurred there against particularly when the schemes are co funded by GoR.

13. GoR budget documents should clearly state the reasons for variations between B.E.s and R.E.s. of the current year as well as between R.E.s and B.E.s of the following year. Additionally, as in the Government of India (and in some States like Karnataka), GoR should present along with the Budget, a statement on the implementation of the budget announcements made in the budget of the ongoing year.

14. GoR's *Economic and Purpose Classification of the State Government Budget* is potentially a very informative document, but it is issued late. The document in relation to the Budget 2003-2004 was published in August 2004 i.e., after the budget year was over. The document is issued by the Directorate of Economics and Statistics. The Finance Department should own this useful document which should be issued along with the budget.

15. The detailed examination of all Demands for Grants by House Committees, as in some other jurisdictions (Himachal Pradesh, Kerala and Orissa for example) and in the Union Government, will enhance the effectiveness of legislative scrutiny of the budget and promote accountability. To be really effective these committees should have the attributes of similar committees of the Union Parliament.

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[15] Report of the Core Group on Voluntary Disclosure Norms for the State Governments (2001)

CHAPTER 4 : BUDGET EXECUTION

Institutional Framework and Processes

1. Information on budget execution reflects the extent to which the Government policies, programs and schemes are actually implemented. The Finance Department communicates the budget allotments to Heads of Departments and other Controlling Officers. The Finance Department also advises the Administrative Departments of the new items of expenditure provided (or approved) in the budget and the Administrative Departments are responsible for issuing necessary orders to the Heads of Departments and other officers regarding such items. Except where it is otherwise specified the line departments are free to implement the budget without any further reference to the Finance Department as per the financial powers delegated to them.

Strengths and Opportunities for Improvement

2. GoR has been successful in achieving substantial fiscal marksmanship over the years[16]. During 2002-2003 while the fiscal deficit and primary deficit were well below the budget estimate, the revenue deficit had marginally exceeded the budget. But during 2003-2004 revenue deficit, fiscal deficit and primary deficit all remained within the budget estimates. That this was achieved despite the severe drought conditions only adds to the achievement of GoR.

3. However, the allocative priorities of the budget suffered serious deviations in all respects: between revenue and capital expenditure, between Plan and non-Plan expenditure and as amongst General, Economic and Social Services.[17] In each of the three years ended March 2004 capital expenditure bore a disproportionately severe brunt of expenditure squeeze; the shortfall in capital expenditure ranged from 5 to 21 per cent vis a vis the budget estimates against the shortfall of 1 to 7 per cent in revenue expenditure.

4. Similarly, Plan expenditure bore a disproportionately severe brunt of the expenditure squeeze during the years 2002-2003 and 2003-2004. During 2002-2003 the shortfall in Plan expenditure was 20 per cent against the shortfall of less than 6 per cent in non-Plan expenditure. During 2003-2004 non-Plan expenditure overshot the budget provision by 4 per cent while Plan expenditure suffered a shortfall of over 18 per cent.

5. While the shortfall in expenditure was evenly distributed over General Services, Economic Services and Social Services during 2001-2002, the subsequent two years witnessed a disproportionately large impact of shortfall in expenditure on Economic Services and Social Services.

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[16] GoR Budget Documents
[17] GoR Budget Documents

6. The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005, requires the Finance minister to review the trends in receipts and expenditure in relation to the budget estimates on six monthly basis with reasons for variations and proposed remedial action. This is a welcome feature that will ensure mid-term introspection at the political level and necessary course correction.

Table 3 – Budget Execution

Strengths	Opportunities for Improvement
General • Except where it is otherwise specified the line departments are free to implement the budget without any further reference to the Finance Department as per the financial powers delegated to them • In addition to the internal financial reports of expenditure and receipts, the Heads of Departments receive statements of progressive expenditure from the Accountant General every month for monitoring of expenditure against budget provisions • The FRBM Act 2005 requires the Finance Minister to conduct six monthly reviews of trends of receipts and expenditures in relation to the budget targets, explain the deviations if any and take suitable remedial measures. *Budget Out-turns* • GoR has progressively secured greater fiscal discipline with the actuals of primary deficit, revenue deficit and fiscal deficit remaining within the budget estimates during 2003-2004 • The amount of expenditure affected by year-end rush has progressively declined.	*Budget Outturns* • Deviations of expenditure from the budget in the matter of allocative priorities; the deviations negatively affected expenditure on capital, Plan and economic and social services. • Need for more effective monitoring of expenditure; Supplementary Grants have been found to be wholly unnecessary in some cases and inadequate in some other cases thereby disclosing soft spots in the monitoring mechanism. Critical analysis of savings in grants, their surrender and re-appropriation supports this conclusion. • Make fuller use of the treasury computerization as an instrument of expenditure control • Need for examining cases of expenditure recurrently affected by year-end rush. • Accounting Consistency in Reporting: Achieve consistency between the accounts of unbundled power sector corporations and the state accounts and budget to clarify subsidies, loans, capital investment (equity) and financial losses and profits.
Cash Management • Well-documented system of cash flow projections • No overdraft during 2004-2005	*Cash Management* • Install more scientific cash management system, particularly in the context of a recent Union Government decision for enhanced empowerment of State Governments for raising market loans
Revenue receipts • Regular monitoring of revenue receipts on daily basis • Improvement in tax administration has led to robust tax revenue growth in recent years	*Revenue Administration.* • Reduce the incidence of arrears of assessment and collection of revenue receipts • Improve the quality of internal audit of receipts • Improve the quality of response to observations of internal audit and CAG's audit and address systemic failures and weaknesses

7. GoR has prescribed elaborate procedures for monitoring of expenditure against the budget provisions. The rules require the spending officers to report the expenditure to the Controlling Officers every month. Additionally, the Controlling Officers receive statements of progressive expenditure from the Accountant General (Accounts & Entitlement) every month. Nevertheless there were serious deviations[18]:

    - The aggregate actual expenditure exceeded the amount of the original grants during all the three years 2001-2002 to 2003-2004.
    - Despite the Supplementary Grants, excess expenditure occurred in 12 Grants/appropriations during 2001-2002; in 7 Grants/Appropriations during 2002-2003; and in 12 Grants/Appropriations during 2003-2004 requiring regularization by the legislature.
    - On the other hand Supplementary Grants proved wholly unnecessary in several cases, as the actual expenditure did not come up to the level of even the original budget. This happened in 19 cases during 2001-2002, in 27 cases during 2002-2003 and in 13 cases during 2003-2004.
    - The Controlling Officers did not surrender the provisions not required, or surrendered the provisions when savings did not actually exist.
    - Even within Grants there were cases of injudicious transfer of funds between various Heads of accounts. Such transfers caused excesses under the transferring Heads, while in some other cases excess expenditure occurred despite the augmentation of provisions through re-appropriations.

8. GoR Budget Manual contains exhaustive instructions for cash management through regular reporting of projections of cash inflows and outflows to the Finance Department by the Controlling Officers. The Manual contains specific instructions for monitoring of cash inflows in respect of (i) donor funded expenditure and (ii) expenditure on Central Sector Schemes and Centrally Sponsored Schemes. In addition to the monthly reviews by the Finance Department and the Planning Department these are also monitored at the level of the Chief Secretary and the Council of Ministers every quarter.

9. GoR did not take recourse to overdrafts even on a single day during 2004-2005. This is a welcome development that needs to be appreciated; even as it is at least partly due to the effect of the debt-swap scheme and the gradual petering out of the consequences of the pay revision in the nineties.

10. Government financial rules prescribe that the rush of expenditure particularly in the closing month of the year shall be regarded as a breach of financial regularity and should be avoided. It is expected that the seasonality of expenditure will have played itself out by the third quarter of the year. During 2003-2004 over 80 per cent of the year's total expenditure of Rs. 4.69 billion under 13 Account Heads was incurred in the last quarter; the expenditure incurred in March alone exceeded 73 per cent of the total expenditure. The amount of expenditure affected by year-end rush has been progressively declining.

[18] Appropriation Accounts Government of Rajasthan and Reports of the Comptroller and Auditor General of India

This is a welcome development. There are a few account heads, however, under which year-end rush of expenditure seems to occur year after year.[19]

11. GoR Commercial Tax Department has displayed impressive leadership in administrative reforms. However, the incidence of arrears of assessment and realization of revenues is quite large. GoR had not completed more than 26 per cent of the sales tax assessments due during 2003-2004. The pendency in respect of the mining receipts was 80 per cent of the cases due for assessment up to 2003-2004.[20] Overall the arrears of revenue receipts had increased by 73 per cent from Rs.13.93 billion to Rs.24 billion between 1999-2000 and 2003-2004.[21] The incidence of under-assessments is quite large. External audit by the CAG's organization has pointed out under-assessments of over Rs.13 billion during 2002-2003 and over Rs.7 billion during 2003-2004; the follow up action also does not seem to be adequate[22]. Internal audit is in arrears, the follow up action on the reports of internal audit is inadequate and the work is not properly monitored[23]. There is also need for more effective action for speedy settlement of disputed cases. 12436 Sales Tax cases were pending dispute resolution from 1995-96 onwards; the Commissioner of Commercial Taxes had not maintained consolidated information regarding the amounts under dispute.

Way Forward

12. GoR has good systems in theory for monitoring of expenditure but there is a compliance gap. The Rajasthan Fiscal Responsibilities and Budget Management Act 2005 prescribes stringent targets of elimination of revenue deficit by March 2009 and progressive reduction of fiscal deficit as well as mid-year appraisal of receipts and expenditure. In this background GoR needs to critically review the underlying causes for budget variations and year end rush of expenditure and the deficiencies in the expenditure monitoring mechanism and take appropriate remedial action. Extensive use of E-governance is expected to provide significant assistance in monitoring the progress of expenditure. GoR is encouraged to place the results of half- yearly review of budget out-turns in the public domain[24].

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[19] Accounts at a Glance Government of Rajasthan for 2003-2004

[20] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Rajasthan

[21] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

[22] Report of the Comptroller and Auditor General of India for the years ended 31 March 2003 and 2004 (Revenue Receipts) Government of Rajasthan

[23] Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan

[24] Fiscal transparency should be enhanced by providing public access to information within the year on budget implementation. Quarterly reports with data on budget implementation and a commentary on major fiscal developments posted in the Finance Department web site could help to increase accountability and public confidence in the management of the state's resources (The World Bank Report, Rajasthan Closing the Development Gap, 2005).

13. The Twelfth Finance Commission has recommended the discontinuance of the system of imposing a 70:30 (10:90 in the case of special category States) ratio between loans and grants for release of assistance to the State Governments. Instead the Centre will confine itself to extending Plan grants and leave it to the States how much they wish to borrow and from whom. The acceptance of this recommendation by the Government of India presents an additional challenge to GoR cash management system. GoR needs to maintain a time series analysis of the trends in monthly receipts and expenditure and install a more scientific and sound cash management system that would ensure timely availability of funds on most favorable terms through carefully calibrated market borrowing program, enhance line department empowerment to implement the budget, minimize recourse to WMA and overdrafts and ensure more beneficial investment of surplus funds, if any.

14. The year-end rush of expenditure significantly enhances the fiduciary risk. In some cases the expenditure may only be virtual expenditure representing transfer to Deposit head in Public Account thereby giving a misleading picture of the accounts that are presented to the legislature. GoR should look into the underlying causes leading to year-end rush of expenditure, particularly under the heads that have witnessed recurring such uneven flow of expenditure and enforce compliance with its Financial Rules.

15. GoR should prepare and implement a time-bound programme for clearance of arrears in assessment of receipts. GoR should also urgently follow up cases of under-assessments, hold the officers accountable and address the underlying systemic deficiencies. The disputed cases should be more closely monitored and innovative strategies may be evolved for their early settlement.

CHAPTER 5 : INTERNAL CONTROL INCLUDING INTERNAL AUDIT

Institutional Framework and Processes

1. A sound system of internal control is pivotal to the efficient performance of public financial management that minimizes fiduciary risk and ensures that the public resources are economically and effectively utilized for the designated outcomes. Internal audit, the controller of controls, polices the implementation of controls.

2. GoR has an extensive system of internal control, which is primarily documented in the Government Financial and Accounts Rules (GFARs), Budget Manual and Treasury Rules. Department specific Rules are prescribed for certain departments like the Public Works Finance and Accounts Rules. The departmental regulations and instructions supplement the framework of the rules.

Strengths and Opportunities for Improvement

3. GoR internal control system compares favorably with the INTOSAI[25] good practice guidelines. The rules prescribe that the transactions are promptly recorded, the roles and responsibilities are defined with appropriate delegation of financial powers and segregation of duties, and physical control is established to secure and safeguard all valuable assets. There is also a certain degree of emphasis on outcomes that are required to be monitored at appropriate levels.

4. A positive feature of GoR internal control system is the availability of financial advice on tap to the executing officers. GoR has an established cadre of Rajasthan Accounts Service, with a band of dedicated and motivated members. Members of the service are positioned in all departments with a clearly defined position in the official hierarchy that places them next only to the Head of the Department. They are required to be consulted in all financial and accounts matters and particularly in purchases. It is one of their primary duties to see that all departmental rules and regulations are complied with. In smaller offices/ departments members of the Rajasthan Subordinate Accounts Service may be positioned with broadly similar role.

5. The GoR Budget Manual prescribes an exhaustive system of internal reporting of the progress of expenditure and revenue at the level of the Controlling Officer/Head of the Department. The system is intended to serve the twin purposes of monitoring the flow of expenditure and receipts against the budget figures and also to provide basis of reconciliation of departmental figures with the accounts of the Accountant General.

6. GoR departmental instructions prescribe for monitoring of physical progress of projects and schemes. For example, the Divisional Officers of the Public Works Department are required to send to the Chief Engineer statements of physical and financial progress of works every month. GoR Budget Manual contains elaborate instructions for quarterly

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[25] International Organization of Supreme Audit Institutions

Government level monitoring of physical and financial progress of projects and schemes by the Administrative Departments, which are required to prepare performance budgets.[26]

7. GoR had framed a set of Grant of Guarantee Regulations as early as 1970, which have been updated from time to time. A guarantee on behalf of the GoR can be given only by the Principal Secretary, Finance Department, with the approval of the Minister/Cabinet in specified circumstances. The Regulations stipulate the assessment of the credit worthiness of the institution, the collateral to be provided as well as monitoring its performance. A guarantee fee has also been prescribed. Although GoR had committed to "consider" a legislative ceiling on guarantees[27], the position is currently regulated by a May 1999 Resolution of the Cabinet in terms of which the amount of guarantees outstanding at the last day of any financial year shall not exceed the estimated receipts in the Consolidated Fund of the State. This has been observed during 2003-2004.[28]

8. The basic issue in relation to internal controls is one of compliance. The Director of Inspection, which conducts internal audit of Heads of Departments only (see paragraph 17 below), reported financial irregularities involving Rs. 6.16 billion during 2002-2003 and Rs 5.57 billion during 2003-2004. Misappropriations, losses, failure to render account of amounts drawn in advance, reconcile revenue receipts, absence of evidence of utilization of money were some of the irregularities reported. The Director of Inspection also detected irregularities of the money value of Rs.118.6 million and Rs. 277.1 million during 2002-2003 and 2003-2004 respectively on physical verification of stores.[29]

9. Analysis of the irregularities commented in the audit inspection reports (reports not settled till March 2004) of the external auditor viz; the Accountant General (Audit) relating to the Irrigation Department, District Rural Development Agencies, Industries and College Education also showed that there were numerous cases of irregular payments, irregularities in purchase of stores, withdrawal of funds from the treasury in excess of immediate requirement, avoidable, wasteful and unauthorized expenditure, losses to Government etc[30]. That the failure of controls was fairly widespread was indicated by a similar analysis of the reports relating to the Public Health Engineering Department, Medical and Health Department, Watershed Development and Soil Conservation Department and Social Welfare Department (reports not settled till March 2003), and Primary Education, Ground Water and Forest Departments (reports not settled till June 2002).[31]

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[26] GoR Budget Manual Appendix VI

[27] Memorandum of Undertaking (March 2003) reached between Government of Rajasthan and Ministry of Finance, Government of India on the Rajasthan Medium Term Fiscal Reforms Programme

[28] Finance Accounts 2003-2004 Government of Rajasthan. The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005 enjoins upon the GoR to ensure that total outstanding debt, excluding public account, and risk weighted outstanding guarantees in a year shall not exceed twice of the estimated receipts in the State's Consolidated Fund at the close of the financial year.

[29] Annual Reports of the Director of Inspection

[30] Report of the Comptroller and Auditor General of India for the year ended 31 March, 2004 (Civil) Government of Rajasthan

[31] Reports of the Comptroller and Auditor General of India for the year ended 31 March 2002 and 2003 (Civil) Government of Rajasthan

Table 4 – Internal Control including Internal Audit

Strengths	Opportunities for Improvement
• Internal control on par with other jurisdictions • Internal control generally complies with INTOSAI guidelines • Comprehensively documented systems and procedures • Roles, responsibilities and financial powers clearly defined • Segregation of duties as appropriate • Transactions promptly recorded • Adequate control on acquisition, custody, use and accounting of assets • Institutionalized system of financial advice at appropriate levels • System of quarterly review of physical and financial progress of schemes by the line departments as part of performance budgeting implementation • Institutionalized system of independent performance evaluation of schemes • Comprehensive internal financial reporting systems of progress of expenditure, progress of revenue collection, cash outflow projections and performance of schemes • System of internal audit	• Financial Reports relate to each Head of Department; consolidated report of a particular department not available; prepare consolidated financial reports for the information of the Secretary • Internal controls focus mainly on inputs and not on outputs and outcomes; need for greater integration of financial and output evaluation • Performance indicators not prescribed while these can easily be captured in the case of the power sector and are vital to achieving accountability. • Independent performance evaluation reportedly handicapped by staff shortage • No periodic overall assessment by the Secretary/Head of Department regarding the efficiency and effectiveness of internal control • No mechanism for ongoing review of internal control system • Compliance inadequate; reports of internal audit, Directorate of Inspection and CAG's audit replete with cases of infractions of controls • Internal audit in need of modernization with focus on systems, outputs/outcomes and adoption of risk assessment approach; governance issues like staff inadequacies need to be addressed. • Internal audit should be Secretary/ Head of Department driven. • Follow up action on audit observations inadequate, underlying systemic deficiencies not addressed • Strengthen monitoring and utilization of assistance provided to local bodies and others • Explicitly define the role of the Administrative Secretary as the Chief Accounting Authority of his department • Arrears in the accounts of Public Sector Enterprises • Accounts of Public Sector Enterprises tend to be qualified – more effort is required to obtain unqualified audit opinions and on a timely basis. • Return from investments in Public Sector Enterprises could be improved further • Internal audit system in the Public Sector Enterprises need substantial strengthening • Strengthen guarantee management, make adequate provisions in the Guarantee Redemption Fund commensurate with the amount of outstanding guarantees appropriately risk based.

10. There are also instances of circumvention of controls through side winding devices. Unutilized materials are shown to have been consumed through fictitious entries.[32] The practice of splitting up works to avoid the sanction of the higher competent authority is also reported to be not uncommon.

11. According to the General Financial and Accounts Rules, Heads of departments /Offices may draw money as advance on Abstract Contingent (AC) Bills to meet immediate requirements of funds for expenditure but they must submit Detailed Contingent (DC) Bills in respect of such advances within one month. Contrary to the requirement of the Rules, DC bills are being submitted after long delays that may range up to twelve years and more. Also, DC bills have not been submitted for Rs. 614 million, some from1983-84 onwards.[33]

12. GoR incurs substantial amounts through provision of assistance to local bodies and others but monitoring of the utilization of assistance so provided is weak. Utilization certificates of such assistance were in arrears, in some cases from 1993-1994. Even the information relating to the assistance provided and the expenditure incurred there against was not forthcoming, in some cases from 1999-2000.[34] Unlike the Central Government Rules, the GoR Financial Rules do not require the grantee institution to furnish a performance-cum-achievement report. Consequently, there is no way of knowing whether the intended outcomes by incurring expenditure through payments of grants-in-aid are achieved in these cases.

13. The effectiveness of existing output and outcome controls is also not quite satisfactory. For example, in the Agriculture Department a Monitoring and Evaluation Cell consisting of 87 Statistical Officials and headed by a Joint Director was functioning under the direct control of the Director of Agriculture but the Joint Director had no information regarding the physical and financial progress of the schemes. Even the evaluation and monitoring of the performance/results achieved against financial assistance released to various autonomous bodies/corporations viz. Agricultural Colleges; Rajasthan State Seeds Corporations was not conducted.[35] In connection with the implementation of the Child Labour (Prohibition and Regulation) Act, 1986 the Labour Commissioner did not have vital statistical information regarding the hazardous and non-hazardous establishments, the Non government organization working in the area, the number of children brought into mainstream education etc.[36]

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[32] According to the Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan stock material valued at Rs. 41 million was lying in stores though the records showed that it had been consumed on various works. In some other cases material valued at Rs.26 million was booked to various works and subsequently withdrawn at the commencement of the next financial year.

[33] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

[34] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

[35] Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan

[36] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

14. Although the position regarding monitoring of outputs and outcomes is somewhat better in respect of the Centrally Sponsored Schemes, it appears no critical examination of reports received from the lower formations is done for taking remedial and corrective action.[37] The performance indicators have also not been prescribed.

15. There is no system of periodic self-assessment of the efficacy of internal control. It also appears that the prescribed expenditure monitoring system has become dysfunctional. The departments do not reconcile the accounts with the books of the Accountant General every month; this is done only twice a year. The numerous cases of excess expenditure and injudicious re-appropriation also support this perception.

16. Also, the prescribed system does not generate information relating to a department as a whole. The figures are required to be consolidated in respect of and up to each Controlling Officer/Head of the Department. A department may have one or more than one Controlling Officer /Head of Department. Consequently the position of total spending of an administrative department is not available at the level of Secretary.

17. GoR has a two-tier Internal Audit system. Firstly, there is an internal audit unit at the disposal of each Head of the Department. Secondly, the Director of Inspection under the Finance Department has been entrusted with the function of internal audit of Heads of Departments. The Director of Inspection also carries out special audits at the instance of the Finance Department. The responsibility of physical verification of stores of all offices has also been entrusted to the Director of Inspection. Internal audit operates within the framework of a compliance audit function and the limited resources made available for this purpose.

18. Notwithstanding the gravity of irregularities pointed out by the Director of Inspection (See paragraph 8 above), the follow up action was inadequate and tardy. As many as 3048 inspection reports with over 37000 audit objections had not been complied with at the end of March 2004, some of these from 1979-80.

19. The performance of the internal audit units with the heads of departments is even less satisfactory. CAG's review of the performance of internal audit in three departments viz. the Departments of Sales Tax, Small Savings, State Insurance and Provident Fund disclosed understaffing and heavy incidence of arrears of internal audit, as well as compliance with the observations of internal audit with some of the reports pending settlement since 1991.[38] In the Tribal Area Development Department, the only internal audit party was inoperative since May 1996.[39] The tendency to re-appropriate the internal audit staff for other purposes is also reported.

[37]Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

[38] Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan

[39]Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

20. Also, internal audit is essentially input-oriented. The existing internal audit set-up lacks defined audit standards, the planning of audit activities is not sufficiently linked to risk and the role of internal audit does not extend to identification of systemic improvements. The system is in need of modernization, with adequate emphasis on systems rather than only on transactions and based on a careful risk assessment.

21. A separate Directorate of Evaluation functioning under the Planning Department carries out periodic evaluation of schemes for their physical and financial performance and the achievement of the stated objectives. Representatives of the Non-Government Organizations (NGO's), Universities etc. may be associated with such evaluations. A recent innovation is the association of representative of the Directorate of Evaluation with the work of physical verification of assets conducted by the Directorate of Inspection. The evaluation studies of the Directorate of Evaluation contain useful recommendations for course correction. Systems and procedures also exist for follow up action. We were informed that the Directorate is severely handicapped because of persistent shortage of staff and other resources and not much use is made of its evaluation studies in the preparation of budget.

22. Fiduciary assurance[40] relating to development projects is limited. A critical review of the financial management and accountability arrangements of the Bank's portfolio in Rajasthan has disclosed several deficiencies. The financial statements and audit reports of projects need to be aligned more closely to generally accepted standards of accounting and auditing. Assets created often are often under accounted for—the emphasis is on annual accounting for receipts and payments not on the cost benefit or value for money of the assets being created from public money. Each project has two different financial reporting systems operating concurrently (the government's own treasury based system and the parallel project based financial reporting system), but the system does not normally require a reconciliation of the project expenditure with the government records thereby diminishing the reliability of the project's expenditure reported and claimed. Further, where separate institutional arrangements (registered societies) or separate bank accounts (outside the treasury) have been put in place to facilitate project implementation, unfamiliarity of the government accounting staff with the double entry accounting requirements has limited the positive impact of such initiatives with the audit reports commenting on systemic weaknesses like non-reconciliation of books of accounts, incomplete records and noncompliance with institutional guidelines on payments and expenditures. While substantial investments in developing, computerized accounting and reporting systems for some of the projects have been made, effective implementation of these systems has been seriously handicapped by capacity constraints. The internal audit arrangements are also weak and the follow-up on the audit observation is inadequate.

[40] Fiduciary assurance relates to the arrangements in place to ensure that project funds are used for the purposes intended with due regard for economy, efficiency and effectiveness.

23. Corporate governance arrangements need monitoring. As on 31 March 2004, there were 23 Government companies with a total Government investment of Rs.130.79 billion. Of these 7 companies with an investment of Rs. 123.2 million were non-working. A meager amount of Rs.163.5 million was declared as dividend during 2003-2004; this worked out to 0.53 per cent of the amount of equity investment of the working companies. Only 11 out of the 16 working companies had finalized their accounts for 2003-2004. Of the 7 non-working companies the accounts of 2 companies were in arrears. The accounts are always qualified. The statutory auditors reports also indicate serious deficiencies in internal audit set up; internal audit system is neither commensurate with the size and nature of the companies nor is there adequate follow up of internal audit reports.[41] While the annual Reports of the CAG are very informative on the overall situation of PSUs and accessible, the results of secondary audits conducted by the CAG, where private auditors have already conducted an annual statutory audit under the Companies Act, are less visible to the public. The effect of the CAG's comments arising out of the supplementary audit of PSUs on their working results is mentioned in the CAG's Annual Commercial Audit Report. It is also mentioned in the Annual Reports of the companies which contain the comments along with the statutory auditor's Report. Value addition by the CAG in this area is difficult to readily assess.

24. In addition to the Government companies, there were three statutory corporations in which G0R had invested Rs. 9978 million. The accumulated losses of two of the corporations had exceeded their paid up capital.

25. The Public Enterprise Profile brought out by the GoR contains wealth of information relating to these entities. The latest available Profile is only for the year 2000-2001.

Way Forward

26. While GoR has a well designed system of internal control that compares favorably with similar systems in other jurisdictions, there is a compliance gap. Large- scale non-compliance with the prescribed control systems and audit observations that report infractions of control is indicative of enhanced fiduciary risk. GoR needs to consider adoption of Government of Andhra Pradesh recent orders which seek to withdraw further spending powers from the departmental officers who do not respond to audit observations in time (See Box 4). The system should also be periodically assessed for its efficacy.

[41] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Rajasthan

BOX – 4
Incentivizing Compliance with Financial Management Rules: Andhra Pradesh

In April 2002, the Government of AP issued a Government Order (GO 507), which restated some basic financial management rules of the state, and also attempted to set up an incentive structure for compliance with these rules. The basic move was to link fund releases to prior adherence with financial management requirements, using self-certification. GO 507 includes the following provisions:

- No amounts can be drawn for a particular scheme until the responsible Drawing and Disbursing Officer (DDO) indicates that at least 50% of pending audit paragraphs for the years up to 2000/02 have been replied to.
- No further Abstract Contingent (AC) Bills (advances for expenditures) will be paid until Detailed Contingent bills (expenditure statements) are provided for earlier AC bills, indicating how the funds will be released against the AC bill were actually utilized.
- No funds will be released after the 10^{th} of the month to a DDO unless s/he certifies that s/he has undertaken a reconciliation of accounts for the previous month (this refers to the reconciliation between departmental and treasury figures).
- Funds will not be released to Personal Deposit Accounts or bank accounts unless utilization certificates show that at least 75% of the funds released earlier has been spent.
- Prior to the release of funds, local bodies and other government entities need to have completed their statutory audit for 1999/00, and have cleared their audit objection.

Source: Karnataka PFMA Study, World Bank, April 2004.

27. With the increasing emphasis on outputs/outcomes, GoR should work out performance indicators for the various programs and schemes being implemented by it. The governance issues relating to the Directorate of Evaluation should be satisfactorily addressed.

28. GoR needs to have more effective control over the proper utilization of grants-in-aid provided to local bodies and others. Performance-cum-achievement reports should be obtained from the grantee institutions. In the cases of bodies and authorities that are provided large amounts by way of grants, say in excess of Rs. 10 million in a year, a system of MOU may be considered.

29. Guarantee management needs to be further strengthened. GoR has created a Guarantee Redemption Fund from 2002-2003, and amounts of Rs 132 million and Rs 519 million were credited to the Fund during 2002-2003 and 2003-2004 respectively. Against the outstanding amount of guarantees of Rs 172.39 billion as of March 2004, only a small amount of Rs 641 million was available in the Guarantee Redemption Fund. GoR needs to explicitly classify the guarantee portfolio by risk and take steps to top up the Fund accordingly by making suitable appropriations and set aside funds separately preferably in central government securities in the Public Account. (See Box 5).

BOX – 5
Extract From the Report of the Reserve Bank of India Group to Assess the Fiscal Risk of State Government Guarantee – July 2002

The guarantee commissions charged by States do not bear much relation to the underlying risk and may not be sufficient to constitute the Guarantee Redemption Fund (GRF). Secondly, it is infeasible at the present stage to increase guarantee commission as most bodies in favor of which guarantees are extended are also in the public sector. Therefore, the Group recommends that at least an amount equal to 1 percent of outstanding guarantees may be transferred to the GRF each year form the fisc specifically to meet the additional fiscal risk arising on account of guarantees. The guarantee commission collected could also be credited to this Fund.

30. GoR should take steps to modernize the internal audit system with a shift of emphasis in favor of audit of systems and output/outcomes and adoption of a formal risk-based approach that will ensure optimization of productivity of internal audit staff. The inspection report of the Directorate of Inspection must comment upon the effectiveness of the internal audit units of the Heads of Departments. Internal audit should be Secretary-driven. A consolidated summary of the significant findings of internal audit should be prepared for the Administrative Secretary. Ideally, there should be integrated internal audit organization reporting directly to the concerned Secretary of the administrative department. The need for the associated capacity building is also indicated.

31. This will be in line with the need for greater departmental accountability. For the same reason the departmental figures of receipts and expenditure should be consolidated for each line department and critically reviewed by the Administrative Secretary.

BOX – 6
Government of India
- Duties and Responsibilities of the Chief Accounting Authority

The Secretary of a Ministry/Department who is the Chief Accounting Authority of the Ministry/Department shall:

(i) be responsible and accountable for financial management of his Ministry or Department.
(ii) ensure that the public funds appropriated to the Ministry or Department are used for the purpose for which they were meant.
(iii) be responsible for the effective, efficient, economical and transparent use of the resources of the Ministry or Department in achieving the stated project objectives of that Ministry or Department, whilst complying with performance standards.
(iv) appear before the Committee on Public Accounts and any other Parliamentary Committee for examination.

(v) review and monitor regularly the performance of the programs and projects assigned to his Ministry to determine whether stated objectives are achieved.

(vi) be responsible for preparation of expenditure and other statements relating to his Ministry or Department as required by regulations, guidelines or directives issued by Ministry of Finance.

(vii) shall ensure that his Ministry or Department maintains full and proper records of financial transactions and adopts systems and procedures that will at all times afford internal controls.

(viii) shall ensure that his Ministry or Department follows the Government procurement procedure for execution of works, as well as for procurement of services and supplies, and implements it in a fair, equitable, transparent, competitive and cost-effective manner.

(ix) shall take effective and appropriate steps to ensure his Ministry or Department :-
(a) collects all moneys due to the Government; and
(b) avoids unauthorized, irregular and wasteful expenditure.

Source: Rule 64 General Financial Rules, 2005, Government of India Ministry of Finance, Department of Expenditure.

32. There is need to strengthen *departmental* accountability for results. Once a new public expenditure system involving changeover from outlay-orientation to outcome-orientation is introduced, departments would need not only to achieve annual budget targets but also measure achievements against desired outcomes under major programmes. This would imply that the management information system should not only be capable of generating intra-year and end-year information for monitoring budgetary targets but also achievement of outcomes under major programmes. The computerised accounting system would need to be more integrated in line with a modern management information system that can help in monitoring outputs and outcomes linking financial with non financial information. A main task ahead is to improve the quality of information generated for decision-making, tracking of expenditure from the state treasury to the ultimate beneficiaries and more timely and useful departmental reporting on service delivery.

33. The foregoing discussion would inevitably lead to a reconsideration of the role of the Administrative Secretary as the Chief Accounting Authority, which needs to be more formally and explicitly defined. This has been done in the Union Government in the General Financial Rules 2005. (See Box 6). Within the framework of Government policy, the departmental budget and its implementation as well as accounting, financial reporting, internal control including internal audit, will have to be Secretary-driven and the Secretary will be expected to take full responsibility for the economical, efficient, effective and transparent use of the resources of his department in achieving the stated departmental objectives, while complying with contemporary performance standards. Simultaneously, the Administrative Secretary would need to be provided the necessary infrastructure. The institution of Financial Advisor will have to be suitably strengthened and equipped to play a meaningful role in the envisioned environment with shift in emphasis from input control to control of outputs and outcomes.

34. GoR should take suitable steps for increasing where appropriate the returns from the investments in the public sector enterprises. Seven Government companies including five non-working companies had been incurring losses for the last five consecutive years (as per their latest finalized accounts) and their net worth had become negative.[42] It is necessary to establish clear responsibilities in Government for addressing the potential risks from its PSEs more effectively. A broad view of fiscal risk needs to take into account risks arising from quasi-fiscal activities that Government undertakes through its enterprises. The Finance Department may take the lead and look beyond budget policy as the sole source of fiscal risk.

35. The Audit Reports of the Comptroller and Auditor General of India are full of instances of management failures. For example, the Rajasthan Rajya Vidyut Utpadan Nigam Limited suffered transit shortages of coal of over Rs. 245 million during 2002-2003. In another case, the Rajasthan State Mines and Minerals Limited paid Rs.51 million on account of the cost of trees that existed on the land acquired by it, but it did not safeguard its interests towards recovery of sale proceeds of trees.[43] While maintaining an arm's length relationship, there is clear need for professionalization of management as well as introduction of improved management practices. Also, the public sector managers should be held accountable for any unnecessary losses by taking action that is immediate and visible.

36. The accounts of public sector enterprises should be brought up to date under a time-bound programme with suitable cleaning up of the balance sheets where required. The deficiencies in internal audit should be remedied.

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[42] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Rajasthan

[43] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Rajasthan

CHAPTER 6 : GOVERNMENT ACCOUNTS

Institutional Framework and Processes

1. Government Accounts represent the financial translation of the activities of the State. The accounting policies and the comprehensiveness of the accounts are important elements in ensuring accountability.

2. Under the Constitution the accounts of the Union and the State Governments shall be kept in such form as the President may prescribe on the advice of the CAG. The basic structure of the form of accounts is common to all jurisdictions; this ensures a measure of uniformity, which facilitates the compilation of accounts of the various jurisdictions in a common and comparable format.

3. In line with the provisions of the Constitution, Government Accounts are maintained in three parts: Part I Consolidated Fund; Part II Contingency Fund; and Part III Public Account. A distinctive feature of the system of Government accounts is the minute elaboration of financial transactions of Government with both receipts and payments being differentiated and classified in detail. The accounting system is designed to give information in terms of the Constitutional provisions relating to the Fund (Consolidated Fund, Contingency Fund and Public Account) its nature (revenue or other than revenue), function (economic, social or general services), programme, etc. The six-tier system of classification of accounts currently followed ensures that data is captured in sufficient detail so as to disclose expenditure on specific sectors, functions, programs, sub-programs, schemes, executing offices and inputs. This is of considerable use in performance evaluation and accounting for results.

4. Government Accounting Standards Advisory Board (GASAB) has been established under the auspices of the CAG for the formulation and updating of accounting standards in Government and for their implementation. GASAB is a multi-departmental Central Government body on which the States are represented by rotation.

5. In terms of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 the CAG is mandated to compile the accounts of the State Governments except the Government of Goa. In Rajasthan this function is carried out by the Accountant General (Accounts and Entitlement) functioning under the CAG.

6. The treasuries are the focal points at which transaction of Government receipts and payments occur. As an exception to this departments like the Public Works Department and the Forest Department are authorized to make payments by cheques. These units render the inputs to the Accountant General in the prescribed format.

Strengths and Opportunities for Improvement

7. GoR has made significant progress in computerization. All the thirty-eight treasuries and 100 sub-treasuries (those with authority to pass bills) have been computerized and are

connected through an Intranet. The treasuries send their inputs to the Accountant General both in the electronic form and in the form of hard copies. There are generally no significant delays in the receipt of the inputs in the Accountant General's Office.

8. The compilation of accounts is fully computerized in the Accountant General's office from the primary source document viz; the voucher. The Accountant General's Office is now able to generate financial information on GoR receipts and expenditure at all levels of aggregation e.g. at the level of Drawing and Disbursing Officer, Controlling Officer, district, expenditure incurred by a department on any particular scheme etc.[44]

9. GoR rules prescribe a detailed system of reconciliation of departmental figures of receipts and expenditure with the books of the Accountant General every month; this guards against misclassification of transactions as well as well fraudulent transactions.

10. A high level Standing Committee comprising senior officials of the Accountant General and the GoR has been established for the consideration and pursuance of accounts related matters. There are two sub-committees on accounts and reconciliation. The institutionalized committee system not merely facilitates speedy resolution of outstanding issues but also promotes ownership of the accounts by the State Government.

Table 5 – Government Accounts

Strengths	Opportunities for Improvement
• Form of accounts prescribed by the President on the advice of the CAG and is common across all jurisdictions • Prescribed six-tier system of classification of accounts ensures that data is captured in sufficient detail so as to reflect expenditure on specific sectors, functions, programs, sub-programs, schemes, executing offices and inputs • Treasuries, Public Works Divisions and Forest Divisions which make initial payments or receive money generally send the inputs for compilation of accounts in time • Full computerization of compilation of accounts in the Accountant General's office from voucher level • Substantial progress in computerization of accounts at the treasury level • Standing Committee on Accounts and its two sub-committees not merely provide a forum of resolution of outstanding issues but also promote Government ownership of accounts • System of monthly reconciliation of departmental accounts with the accounts compiled by the Accountant General • Declining trend in out standings under 'Suspense' which are being tackled in systematic manner • Government Accounting Standards Advisory Board functioning under the auspices of the CAG to set standards and to direct, supervise and introduce accounts reforms	*State level* • Leverage the full potential of treasury level computerization • Greater synergy between A.G.'s voucher level compilation and treasury compilation • Out standings under Suspense still large • Transfers to Deposit Heads to prevent lapse of budget provisions affect the true and fair position of accounts and Government finances • Reconciliation generally done twice a year on six monthly basis; the quality of in-year accounts open to question • Arrears in confirmation of the amounts of outstanding loans, the detailed accounts of which are maintained by the Accountant General *National level* • Accounts kept on cash-basis with its associated limitations vis a vis accrual based accounting • No formally articulated accounting policies and standards • Issue of classification of expenditure revenue and other than revenue

[44] Administrative Report of the Office of the Accountant General (A&E) Rajasthan 2003-2004

11. The above are some of the positive features of Government accounting in Rajasthan but several issues remain, which significantly impact on the utility of accounts for outcome assessment and accounting for results. Some of these are State level issues, while the others require action at the national level.

12. The departmental officers do not reconcile their accounts with the books of the Accountant General every month. This is generally done twice a year, on six monthly basis.[45] Consequently, the quality and accuracy of in-year accounts remains open to question.

13. The Accountant General maintains detailed accounts of certain types of loans and the year-end balances are communicated to the departmental offices for their confirmation. In several cases the departmental offices have not communicated the acceptance of balances to the Accountant General for years, from1968-69 onwards.[46]

14. Also, despite sustained efforts being made, large amounts still remain outstanding under Suspense heads and are not adjusted to final heads of classification. There is also no delineation between the out standings under the Suspense heads that have expenditure impact and the balances that impact the GoR cash balance.

15. Another factor that affects the accuracy of accounts and the true and fair position is the practice of transfer of amounts to Deposit Heads, some time to avoid lapse of the budget provision. During 2002-2003, Rs. 16.29 billion were drawn through Nil payment vouchers and transferred to Civil Deposits. Besides, Rs. 18.9 billion also drawn through Nil payment vouchers were transferred to other Deposit Heads.[47] This persisted during 2003-2004 as well; Rs. 17.67 billion drawn through Nil payment vouchers were transferred to Civil Deposits and Rs.33.64 billion also similarly drawn were transferred to other Deposit Heads.[48]

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[45] Accounts at a Glance GoR 2003-2004
[46] Finance Accounts Government of Rajasthan 2003-2004
[47] Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan
[48] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

BOX – 7
Use of Public Account in Managing State Finances

Extract from the Record Note of the Conference of the Finance Secretaries of the State Governments (December 2004) organized by the Office of the Comptroller and Auditor General of India New Delhi

"While discussing the issue of use of Public Account surpluses in managing the State finances, it was mentioned that on annual basis, Public Account Surpluses constituted about one third of the deficits of the State Governments... If allocated proportionately, more than half of revenue deficit of State Governments was met with the Public Account Surpluses. As such it was felt that following implications could be considered so far as use of Public Account Surpluses was concerned; (i) it led to distortions in Accounts; (ii) it amounted to front loading of deficits; (iii) it reduced the effective rate of interest on fiscal liabilities; (iv) it resulted in inadequate legislative control; and last but not the least (v) it invariably resulted in complacency in resource management on part of the State Governments."

16. In some cases the expenditure by way of transfers to Deposit Heads may represent only virtual expenditure. For example, according to the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2003, Rs.106 million transferred to the Personal Deposit Account of Gram Panchayats had remained unspent for three years.

17. The combined effect of out standings under Suspense Heads (which may mean that the expenditure has not been adjusted to the final heads and thereby under stated) and the transfers to Deposit Heads (which may mean that the expenditure figures are inflated) is to undermine the reliability of accounts and diminish their use as a tool of measurement of outcomes and accounting for results.

18. These are State level issues. The basic national level issue is the absence of formally articulated accounting standards, except what is mandated in the rules and regulations e.g. the General Financial and Accounts Rules. This is currently being attended by GASAB.

19. In Rajasthan, as in other jurisdictions, Government Accounts are maintained on cash basis. Consequently, the accounting system does not bring out the accrual aspects of accounting such as fixed assets – land, buildings and plant, liabilities arising out of unpaid bills, unpaid subsidies to the power sector, pension obligations, unrealized tax revenues and other receipts as well as the cost of using the existing resources (depreciation etc.). This also diminishes the utility of accounts as a tool of measurement of outcomes vis a vis the inputs.

20. A third national level issue relates to the classification of expenditure between revenue and capital. The Constitution of India recognizes two types of expenditure: expenditure on revenue account and other expenditure. GoR General Financial and Accounts Rules define Capital expenditure broadly as expenditure incurred with the object of increasing concrete assets of a material and permanent character. Expenditure on a temporary asset

or grants-in-aid shall not ordinarily be considered as expenditure of a capital nature.[49] The issue is explained in the following paragraphs.

21. During 2003-2004 GoR provided for and paid grants-in-aid of Rs.6.34 billion to local bodies under Capital section of budget and accounts.[50] Strictly, these should have been classified under revenue expenditure.

22. An Expert Group set up by Government of India has held in its Report (2004) that the current norms for distinguishing between revenue and capital expenditure are based on sound accounting principles and are in line with the international practice. As regards the transfers to other jurisdictions, it is the ownership of the asset created thereby that should determine its classification in the books of the transferring jurisdiction. For the sake of transparency such transfers as are intended for the creation of assets should be classified as capital grants under the revenue section in the books of the transferor.

Way Forward

23. GoR Accounts score well on a number of parameters set out in the IFAC-PSC standard[51] on the cash basis of accounting but do not meet the standard as a whole mainly due to lack of definition of coverage of the economic entity and a lack of a clear statement of accounting policies.

24. GoR should more actively cooperate with the Accountant General in the efforts being made by the latter for clearance of the amounts outstanding under Suspense heads. GoR should also discourage transfers to the Deposit Heads. Ideally, all personal ledger accounts should be closed at the end of the year, and at least the larger local bodies, should be encouraged to keep their funds in banks[52].

25. The cash based accounting system has limitations, for instance, liabilities could be understated, fixed asset accounting is often absent, full cost of services cannot always be ascertained on a timely basis and commercial services cannot be priced correctly. Nevertheless, it is recognized that there are several difficulties in immediate switchover to accrual-based accounting. There are practical problems, conceptual issues, huge costs and timeframe. But this must remain the ultimate goal. The Twelfth Finance Commission has recommended that the Central Government should gradually move towards accrual basis of accounting. In the interim period additional information in the form of statements should be appended to enable more informed decision-making. The additional information may relate to subsidies, expenditure on salaries, expenditure on pensions, committed liabilities, maintenance expenditure segregation of salary and non-salary portions and liabilities and repayment schedule on outstanding debt. GoR is encouraged to enter into a dialogue with the Accountant General for suitably implementing this recommendation at the State level. Additionally, the GoR could work with the

[49] Rule 338 of GoR General Financial and Accounts Rules
[50] Finance Accounts Government of Rajasthan 2003-2004
[51] International Federation of Accountants – Public Sector Committee
[52] This will require amendment to the General Financial and Accounts Rules.

Accountant General to build the road map for the move towards introducing accrual accounting and conducting pilots as appropriate in line with similar developments at the central government.

CHAPTER 7 : FINANCIAL REPORTING

Institutional framework and processes

1. Financial reports represent the window through which Government is viewed in financial matters. Under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service Act), 1971, the Accountant General (A&E) who compiles the accounts of GoR from the inputs received by him from the treasuries, public works divisions etc also prepares the financial statements of GoR. The Accountant General sends the following financial reports to the State Government:

   - In year Monthly Accounts of Government classified under Major Heads;
   - Monthly Statements of Progressive Expenditure;
   - Quarterly Appreciation of the Accounts of the State Government;
   - Finance Accounts; and
   - Appropriation Accounts.

2. The Finance Accounts and the Appropriation Accounts, which are the Annual Statements, carry the Audit Certificate of the CAG and, as prescribed in the Constitution, these are tabled in the State Legislative Assembly; thereafter these become public documents.

3. The Accountant General also brings out an annual document called the "Accounts at a Glance".

Strengths and Opportunities for Improvement

4. A positive feature of financial reports is that these are prepared and sent out in time. Thus the Monthly Accounts are sent out within less than two months and the annual financial statements viz; the Finance Accounts and the Appropriation Accounts are sent to the Governor within six months of the close of the financial year.

5. However, there are delays in the availability of the Annual Statements in the public domain. The delays arise mainly because as per a requirement of the Constitution these Statements have to be first tabled in the State Assembly, which may not be in session when the statements are ready and submitted to the Governor.

6. Also the Monthly Accounts are not in the public domain as in some other States like Karnataka. Consequently, the civil society is denied the opportunity of observing the Government fiscal performance during the year.

7. The monthly statement of progressive expenditure is a useful management tool. It enables the controlling officers to keep watch over the progress of expenditure against budget provisions, thereby monitor the progress of schemes and take timely corrective action including applying for additional funding.

8. The Accountant General's Quarterly Appreciation of Accounts is another useful management information tool. It describes the sources and application of funds, the up-to-date progressive position of receipts and expenditure with analysis of their progress relative to the corresponding quarter of the preceding year, the extent of delays in the receipt of accounts and documents from treasuries and divisions, the position of reconciliation of accounts, the balances under suspense heads, the extent of recourse to ways and means advances and overdrafts etc.

Table 6 – Financial Reporting

Strengths	Opportunities for Improvement
▪ Monthly Financial Reports prepared and sent to the State Government within less than two months ▪ Monthly statement of progressive expenditure is a useful management tool that enables the controlling officers to keep a watch over the trend of expenditure against budget provisions ▪ Accountant General's Quarterly Appreciation of Accounts contains useful management information presented in an analytical manner ▪ Annual Financial Reports (Finance Accounts and Appropriation Accounts) sent to the Governor after audit within six months of the close of the year ▪ Annual Financial Reports required to be presented to the State Legislative Assembly and thereafter become available in the public domain ▪ Appropriation Accounts useful instrument of reporting on the financial progress of programs/schemes besides informing the legislature of the extent of deviations in expenditure from the authorized budget provisions ▪ Finance Accounts contain wealth of information that can be of use to serious students of public finance ▪ Accounts at a Glance a highly informative and user-friendly document	▪ The Annual Financial Statements are not in public domain within six months of the close of the financial year because of delays in presenting the Finance Accounts and the Appropriation Accounts to the State Legislative Assembly ▪ Monthly Accounts and Accountant General's Quarterly Appreciation of Accounts not in public domain ▪ Accounts at Glance needs wider dissemination ▪ Annual Financial Statements do not fully meet the IFAC standards; CAG's Audit Certificate does not say that these present true and fair view ▪ The departmental officers do not furnish the reasons for savings/excess expenditure in the Appropriation Accounts; this diminishes the usefulness of the Appropriation Accounts ▪ Finance Accounts not very user-friendly ▪ Finance Accounts do not disclose the assets created by incurring capital expenditure ▪ Out standings under Suspense and transfers to Deposit Heads to prevent lapse of budget provisions undermine the veracity of the Annual Financial Statements

9. The Appropriation Accounts compare the actuals of expenditure under different heads with the legislatively approved authorizations and report to the legislature significant cases of savings and excesses with the reasons as intimated by the controlling officers. In view of the functional system of classification, the Appropriation Accounts are a useful instrument of measuring the financial progress of the schemes besides the efficiency and effectiveness of budget preparation and expenditure control. But their usefulness is diminished since the departmental officers do not furnish the reasons for savings/excess expenditure in all cases. Consequently, the reasons for slow progress in the implementation of the schemes are not disclosed.

10. The Finance Accounts contain wealth of information that can be of use to serious students of public finance. The Finance Accounts present the accounts of the receipts and outgoings of GoR for the year, together with the financial results disclosed by revenue and capital accounts, the accounts of Public Debt and liabilities as worked out from the balances recorded in the accounts. Apart from the statements of receipts and expenditure, some explanatory notes to statements in the Accounts provide details of the State's guarantees, borrowings, the minimum cash balance required to be maintained by the State, limit for ways and means advances, and overdrafts etc. The document is, however, not very user-friendly even to a professionally trained person. The document should also include information on major subsidies, debtor-wise maturity profile of debt and outstanding arrears etc. The Finance Accounts do not disclose the physical assets created by incurring of capital expenditure.

11. A comparison of the Annual Financial Reports with the best practice shows that in Rajasthan, as in other States, the Financial Reports do not completely satisfy IFAC-PSC standard, mainly because of a lack of definition of their coverage, and lack of a statement of accounting policies. A detailed comparison is given in Annexure III.

12. Also in his audit report the CAG certifies, not that the financial statements show a true and fair view, but that both these are prepared and examined under his direction in accordance with the CAG's (Duties, Powers and Conditions of Service) Act 1971 and that they are correct statements, subject to the observations in the Reports themselves or in the Audit Reports. There is no law specifically laying down the form of certificates. The matter is currently engaging the attention of the CAG.

13. The Accounts at a Glance is a highly informative and user-friendly document but it needs wider dissemination.

Way Forward

14. Summing up, the major limitations of the financial reports as an aid to accounting for results are rooted in the limitations of Government accounts. The accounts are not merely cash-based but their veracity is severely compromised because of out standings under Suspense Heads and transfers to Deposit Heads.

15. GoR should take steps to ensure that the departmental officers furnish explanations for variations between the budget and actuals in all cases in the Appropriation Accounts. The issue of delay in the public availability of Annual Financial Reports is a national issue, which needs to be discussed at a periodic conclave of the Presiding Officers of the legislatures.

16. With the current trend towards greater openness and transparency, GoR needs to respond positively to a suggestion for public availability of the monthly key financial data. The document Accounts at a Glance should be more widely disseminated.

17. GoR is encouraged to enter into a dialogue with the Accountant General for enhancement of the frequency of the Accountant General's Appreciation of Accounts as well as for enrichment of its contents. Additionally, GoR may enter into a dialogue with the Accountant General for a department-wise monthly account of receipts and expenditure at the desired level of aggregation.

CHAPTER 8 : EXTERNAL AUDIT

Institutional Framework and Processes

1. External Audit provides independent assurance of the extent to which budget objectives are met. Government of India has a unified audit in a federal set up; with a constitutionally ordained Supreme Audit Institution (SAI), called the Comptroller and Auditor General of India (CAG) that is common to the Union and the State Governments. The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 formally defines the audit jurisdiction of the CAG. Broadly, the CAG is authorized to audit not merely the receipts and expenditure of Government, but also the autonomous bodies and the public sector enterprises. In Rajasthan the CAG functions through the Principal Accountant General (Audit) and the Accountant General (Audit) located at Jaipur.

2. The Accountant General's Office discharges the audit function through off- site audit as well as on-site audit. Off-site audit is conducted with reference to the accounting documents received in the Office of the Accountant General (A&E). On-site audit office is conducted by visits to the departmental offices. Audit Notes and Audit Inspection Reports are issued on the conclusion of off-site audit and on-site audit respectively. The more important cases are included in the Audit Reports.

3. The CAG currently issues three Audit Reports in a year one each on expenditure, receipts and public sector enterprises. The Reports contain a mix of performance appraisals and transaction audit paragraphs, the latter placed in the appropriate context and with an orientation that is increasingly focused towards outcomes. The CAG's Audit Reports are required, under the Constitution, to be placed before the legislature where after these are in the public domain.

4. The CAG personally writes to the Chief Minister communicating the major findings of the Audit Reports.

5. GoR has issued comprehensive instructions for timely response to audit; the reply to the inspection reports must be furnished within four weeks and the reply to the matters proposed for inclusion in the Audit Report, which the AG communicates by name to the Administrative Secretary with copy to the Finance Secretary, must be sent within six weeks. A mechanism to hold meetings of the Audit with the Administrative Secretaries to discuss matters proposed for inclusion in the Audit Reports has also been institutionalized.[53]

6. Audit Committees comprising representatives of audit, executive and the Finance Department have been set up to review the departmental action taken on inspection reports for their speedy settlement.

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[53] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan

Strengths and Opportunities

7. The robustness of the CAG's organization, its independence, reach and jurisdiction are well recognized. The CAG has promulgated his own Auditing Standards suitably adopting the restructured Auditing Standards issued by the INTOSAI in 2001[54]; the CAG's internal procedures, including peer review and multi-layered scrutiny of audit reports at the draft stage are intended to promote high quality output. An Audit Advisory Board comprising of eminent persons from different walks of life has been established at the national level. Besides, its advisory role, the Board also provides a degree of oversight on public audit arrangements of the CAG's organization.

Table 7 – External Audit

Strengths	Opportunities for Improvement
• Independent Institution prescribed in the Constitution • Auditing Standards generally on par with the INTOSAI Auditing Standards • Well documented audit systems and procedures designed to ensure high quality output • Transparency in audit processes; full opportunity given to the executive for its say at each stage • Reports constructive • Internal peer review • Audit Reports in public domain after these are presented to the State legislative Assembly • The CAG personally writes to the Chief Minister regarding major findings of the Audit Reports • Audit Advisory Board at the national level • GoR detailed instructions for action on audit observations • Institution of Audit Committees for follow up on audit objections	• Need for adequate and timely response to audit observations • Need for timely remedial and corrective action with reference to audit observations • Incentivise response to audit • Audit committees should meet regularly at prescribed intervals • Greater interaction between the Accountant General and the State Government at the apex levels- both at the planning and completion stages of the audit. • Inspection Reports not in the public domain • Occasional delays in the Audit Report; some times caused because the State Legislative Assembly may not be in session when the Audit Report is sent to the Governor • More informed press coverage of CAG final report

8. The CAG's organization is constantly reviewing its procedures for the better fulfillment of the Constitutional mandate of the SAI and be in line with the best practice. For example, CAG's recent Performance Audit Guidelines (2004) would provide for a higher degree of interaction with the auditees. The salient features of performance audit will consist, among others, of strategic planning in pursuit of realization of the strategic goals and objectives, risk-based planning and selection of subjects and attainment of the ultimate objective of value-addition to the public sector programs. The CAG has also issued a separate set of Guidelines on the Performance Audit of Regulatory Bodies. These guidelines are to be applied at Rajasthan in the future.

9. The CAG's Audit Reports are generally timely and contain useful suggestions for improvement. (See Box 8). However there was an exception in the case of the Civil

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[54] Preface to the Auditing Standards, 2nd Edition 2002; it is one of the basic postulates of CAG's Auditing Standards that the SAI should comply with the INTOSAI standards in all matters that are deemed material.

Report for 2003-2004 which was ready in May 2005 but disclosed in September 2005 approximately six months behind schedule. There is transparency about the process with full opportunity being given to the executive to explain its position at each stage.

10. The audit inspection reports issued by the Accountant General after the audit inspection of departmental offices are not in the public domain.

11. Timely action on audit observations can lead to significant saving for Government. For example, GoR recovered revenue receipts of Rs. 291 million (which had been under assessed) during 2003-2004 at the instance of external audit[55]. Similarly an amount of over Rs. 31 million could be recovered during 2003-2004 in consequence of the audit observations on works expenditure.[56]

BOX – 8

Illustrative Examples of Recommendations of the CAG of India[57]

CIVIL

- The State Government may frame its own Education Policy and guiding principles for transfer/rotation of staff thus improving quality of education.
- Government should consider allotting more schools for girls' education and education for tribal students.
- Emphasis may be given on science and technology and vocationalisation of education as envisaged in the National Policy on Education.
- Rationalization of staff as per actual requirement and prescribed norms should be carried out.
- Up gradation of schools may be made as per prescribed norms and procedure so as to avoid growth of uneconomical schools.

Source: Report of the Comptroller and Auditor General of India, for the year ended 31 March 2004 (Civil) Government of Rajasthan, Review on Secondary Education Department

REVENUE RECEIPTS

The Government may consider the following[58]:

- A strong mechanism needs to be developed to prevent unauthorized occupation of land. Provision needs to be incorporated for levy and collection of differential cost of land from beneficiaries on account of exchange of land from undeveloped land to developed land.
- Effective steps need to be taken to ensure that the cost of land is recovered in accordance with the rules and procedures and in case where allotments are liable to be cancelled, action should be taken promptly.
- Internal controls to safeguard the Government revenue need to be strengthened.

Source: Report of the Comptroller and Auditor General of India for the year ended 31March 2004 (Revenue Receipts) Government of Rajasthan.

[55] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Rajasthan

[56] Administrative Report of the Office of the Principal Accountant General (Audit) Rajasthan for the year 2003-04

[57] One illustration each from Civil, Revenue Receipts, and Commercial Audits reports of the CAG

[58] Receipts of Colonization Department

COMMERCIAL The (Rajasthan State Warehousing) Corporation should exercise control over administrative expenses and prepare budget estimates on realistic basis. The Corporation should invest funds judiciously in long term fixed deposits and expand storage capacity assessing its viability. Also, the Corporation should attract more primary producers to store their agricultural produces in its warehouses. *Source: Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Rajasthan.*

12. GoR can derive full benefit of external audit with adequate, proper and timely follow up action on audit observations. Although GoR has issued comprehensive instructions for the purpose, there is a big compliance gap that needs to be bridged.

13. Government Departments did not send replies to 3 out of 6 performance appraisals and 3 out of 22 paragraphs included in the Audit Report (Civil) for the year ended March 2004. The Departments replied to 2 out of the 4 Appraisals included in the Commercial Audit Report and sent replies to 6 out of the 10 paragraphs only. For the Receipts Audit Report out of the cases involving Rs. 3.82 billion on account of short levy, non levy etc. of taxes, duties etc. referred to them, Government Departments did not respond to cases involving Rs. 1.6 billion. The attitude to Audit at the highest level of bureaucracy is likely to set an unfortunate example for the subordinate levels.

14. As many as 8589 inspection reports on audit of expenditure involving 36726 outstanding paragraphs had not been settled as of September 2004. In some cases even the first replies to the inspection reports that were required to be sent within one month had not been furnished for five years and more. The amounts involved in the CAG's outstanding inspection reports relating to receipts had increased from Rs. 8.14 billion to Rs. 11.18 billion between June 2002 and June 2004. In respect of PSE's 1071 inspection reports involving money value of Rs. 22.6 billion had not been settled as of September 2004.

15. Audit Committees set up for the speedy settlement of outstanding inspection reports are also not proving very effective. The Audit Committee relating to receipts held only 3 meetings during 2003-2004 against 14 meetings that were required to be held. The Audit Committee relating to expenditure discussed only 2754 paragraphs and settled 658 paragraphs during 2003-2004, this cannot be considered to be satisfactory considering the huge backlog of over 36 thousand paragraphs.

Way Forward

16. While a robust external audit system is universally acknowledged to be in place, its effectiveness has been greatly impaired by the lack of adequate response to audit observations. Consequently, valuable opportunities get missed out for course correction, systemic improvements, savings in expenditure and recoveries of Government dues.

17. GoR needs to be timelier in its response to Audit with remedial and corrective action that not merely settles the infractions/irregularities reported but also addresses the systemic deficiencies. The Audit Committees must meet with the prescribed frequency and in a more purposeful manner with the executive departments ready with final action to the satisfaction of Audit.

18. The response to the material proposed for inclusion in the Audit Reports needs to be monitored at the level of the Chief Secretary. The senior officers must provide the leadership and during their inspections of the subordinate offices they should review the response to pending audit observations. The adequacy of response to audit should be taken into account whole writing the Annual Performance Appraisal Reports. At stake is the public money.

19. There is also need for further deepening and enhancing the level of interaction between audit and executive. This step would further enhance the audit impact. GoR can make fuller use of the specialized skills of the CAG's organization in its quest for better value for money. A quarterly communication in the form of a management letter from the Accountant General to each Administrative Secretary informing the latter of the significant points noticed during audit inspections would be a welcome addition to the current practice of issue of inspection reports and separately forwarding material in the form of a draft paragraph for the audit report to the Administrative Secretary in due course. This however requires a change in mindset of the executive that regards audit as its eyes and ears and sees timely response to audit as one of its primary duties. A valuable spin off of this would be the further enhancement of the quality and content of audit including its recommendations in the furtherance of Audit's role as an agent for constructive change.

CHAPTER 9 : LEGISLATIVE SCRUTINY

Institutional Framework and Processes

1. Legislative scrutiny secures the accountability of the executive for the achievement of the outcomes for the budget provided to it. As in other jurisdictions legislative scrutiny in Rajasthan draws its authority from the Constitution of India. The Committee on Public Accounts (PAC) and the Committee on Public Undertakings (COPU) are constituted under the Rules of Procedure and Conduct of Business in Rajasthan Legislative Assembly promulgated in terms of Article 208 of the Constitution. The CAG's Audit Reports automatically stand remitted to the PAC (Civil and Revenue Receipts) and COPU (Commercial) for follow up action after these are tabled in the Assembly.

2. The PAC (15 members) and the COPU (also 15 members) represent the State Legislature in miniature but function in a non-partisan manner. Their reports are generally unanimous and carry the moral authority of the entire House. A Minister is barred from being a member of these Committees; the Chairman of the PAC is usually from the Opposition. The Reports are tabled in the House and thereafter become public documents. The Committees are equipped with adequate powers to examine GoR officers at the highest level of bureaucracy as well as to call for Government records and documents for their work. The Committees have the benefit of the advice of the Accountant General in the follow up on the Audit Reports.

3. GoR has issued detailed instructions regarding follow up on Audit Reports. The Departments are requires to send *suo moto* self-explanatory notes on Audit Report paragraphs to the Assembly Secretariat within three months of the presentation of the Audit Reports. The Departments are also required to send Action Taken Notes on the recommendations of the PAC and the COPU within six months of the presentation of the reports of the Committees.

Strengths and Opportunities for Improvement

4. Timely follow up action on CAG's Audit Reports can result in significant savings for Government and compliance improvement. During 2003-2004 GoR recovered Rs. 12.5 million as a result of follow up action on Audit Reports (Civil) for the years 1995-96 and onwards. GoR also issued directions in 29 cases for avoidance of irregularities pointed out by Audit.[59]

5. Although GoR has issued detailed instructions regarding follow up on Audit Reports, these are not being complied with. Consequently, valuable opportunities get missed out for course correction, recoveries procedural improvements etc.

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[59] Administrative Report of the Office of the Principal Accountant General (Audit) Rajasthan for the year 2003-2004

6. Government Departments had not sent *suo moto* self-explanatory notes in respect of 44 out of 292 paragraphs of the Audit Reports (Civil) to the Legislative Assembly Secretariat by January 2005; some of these had been pending since 1998-99. For the Revenue Receipts Audit Reports, the requisite notes had not been sent in respect of 59 out of 128 cases included in the Audit Reports for the years ended March 2002 and March 2003.

Table 8 – Legislative Scrutiny

Strengths	Opportunities for Improvement
• Legislative scrutiny derives its authority from the Constitution • Legislative Committees represent the State Legislative Assembly in miniature • Legislative Committees function in a non-partisan manner, their reports are generally unanimous and carry the moral authority of the House • Reports of the Legislative Committees tabled in the House and thereafter become available in the public domain • Legislative Committees have adequate powers to examine officials at the highest level of bureaucracy as well as to call for records and documents • Legislative Committees have the benefit of the advice of the Accountant General in the examination of matters included in the Audit Reports • System of time-bound *suo moto* submission of Self – Explanatory Notes to the Assembly Secretariat • System of time-bound submission of Action Taken Notes on the recommendations of the Committees	• Delays in the submission of Self Explanatory Notes • Arrears in the consideration of Audit Reports by the Committees • Delays in the submission of Action Taken Notes on the recommendations of the Committees • Include status report on audit observations in the Department's Administrative Report. • Greater openness • Tenure of the members of the Committees • The Assembly hold an annual debate on the work of the Committees • Proceeding not open to the press

7. Also, Government Departments had not sent Action Taken Notes on a very large number of recommendations of the PAC arising out of the Civil Audit Reports, some of these had been pending since 1995-96. In the case of Revenue Receipts Audit Reports, action on some of the recommendations had been pending for 13 years[60]. Government Departments had not sent Action Taken Notes on the reports of the COPU presented between August 2002 and August 2003; some of these related to matters reported in the CAG's Audit Reports for the year1991-92 and onwards[61].

8. Both the PAC and the COPU are in arrears. During 2003-2004 the PAC discussed some of the cases that had featured in the CAG's Audit Reports (Civil) for the years 1999-2000 and 2000-2001 and finalized its recommendations on some of the cases that had featured in the Audits Report (Civil) for the years 1996-97 to 2000-2001[62]. In respect of the Audit Report (Receipts) cases reported in the Audit Reports for the years 2000-2001 and

[60] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Rajasthan

[61] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Rajasthan

[62] Administrative Report of the Office of the Principal Accountant General (Audit) Rajasthan for the year 2003-04

onwards were awaiting discussion[63]. The COPU was in arrears for the Audit Reports (Commercial) for the year 1998-99 and onwards.[64]

9. The PAC had held 12 meetings during 2003-2004; the COPU had met 4 times during the same year.[65]

10. The delays in follow up action on the Audit Reports have cascading effect. With the passage of time, incumbents who are in the best position to explain their position and who should be held accountable are likely to have moved away (or even retired in some cases) and the current incumbents may find themselves handicapped. What is worse, an impression of indifference to accountability may get generated if the officials start harboring the feeling that they would not be personally held accountable or that even the audit comment may wither away with the passage of time. Delays in consideration of Audit Reports and making recommendations in consequence of the mature consideration by the Committees also cause delays the remedial and corrective action.

11. As per Article 205 of the Constitution of India it is mandatory for State Government to get the excess over a grant/appropriation regularized by the State Legislature. However, a number of states have been behind schedule. At Rajasthan the excess expenditure amounting to Rs 1,009 crore for the year 2000-2001 to 2002-2003 had not been regularized as of August 2004. This appears to be a breach of Legislative control over appropriations.

Way Forward

12. The effectiveness of legislative scrutiny of public finances has been considerably impaired by the all-pervasive delays. The timely supply of suo moto self-explanatory notes and the Action Taken Notes needs to be monitored at the level of the Chief Secretary. As in the case of response to audit observations, the performance in this regard should be taken into account while writing the Annual Confidential Reports.

Additionally, as in the Central Government (see Box 9) the Annual Administrative Reports of important Departments could contain a status report on the follow up action taken on audit observations.

[63] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Rajasthan
[64] Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial) Government of Rajasthan
[65] Administrative Reports of the Offices of the Principal Accountant General and Accountant General (Audit) Rajasthan 2003-2004

BOX – 9
Status report on follow up action on audit observations

As far as an improved compliance mechanism is concerned besides greater monitoring by the executive branch and promoting more active interest by PACs and PUCs, we have also ensured that details of audit compliance in the Centre are reported in the Annual Reports of important departments of Government of India. This has enabled greater oversight by Parliament and its Committees over compliance of audit observations.

Source: Address of the Comptroller and Auditor General of India on the occasion of the inauguration of the XXIII Conference of the Accountants General September 2005

13. The Legislative Committees may consider suitable strategies for clearing the backlog of arrears with appropriate prioritization so that the Committees can follow up on the latest reports. This could include an enlargement of the role of the Accountant General in relation to some of the older Audit Reports as well as according of higher priority to the more recent Audit Reports.

14. Currently, the members of the Committees have a prescribed tenure of one year only, which can be extended by the Hon'ble Speaker for another six month. However, anecdotal evidence suggests the existence of a healthy tradition whereby the members are re-elected to the Committees and in fact enjoy continuance of tenure for the life of the House. This is a welcome feature in Rajasthan. The question of providing *de jure* status to this healthy tradition is worthy of consideration.

15. There is one more issue. The proceedings of the Committees are not open to the press and the public and the evidence of the officials tendered before the Committees is not in the public domain, though a Committee may issue a press release at the end of a sitting. Both these issues need to be debated at an all-India periodic conclave of Hon'ble Presiding Officers of the legislatures or the Chairpersons of the Committees. The Committees also need to revisit the issue of public access to the evidence of the departmental officers in the light of the Right to Information Act, 2005.[66] Greater openness and public access to the verbatim record of deliberations of oversight committees would ensure better civil society involvement, promote accountability and enhance the effectiveness of legislative oversight. Best international practice includes an annual debate on the work of the Committees at the Legislative Assembly.

[66] Under Section 8 of the Central - Right to Information Act, 2005, the information that cannot be denied to the Parliament or a State legislature shall not be denied to any person.

CHAPTER 10 : ACCESS / RIGHT TO FINANCIAL INFORMATION

Institutional Framework

1. Access/Right to Information has been judicially recognized as being embedded in the Fundamental Rights guaranteed by the Constitution of India.[67] According to the Hon'ble Supreme Court the fundamental right to freedom of speech and expression, guaranteed by the Constitution, also includes the right to acquire information and to disseminate it. If the people are to perform their role as sovereign and instruct their Government, they must have access to all information, ideas and points of view.

2. Also, India is a signatory to the UN Declaration of Human Rights that proclaims that every one has right to freedom of opinion; this includes freedom to hold opinions and to seek, receive, and impart information and ideas through any media regardless of frontiers.

3. GoR has already achieved a sufficiently high level of fiscal transparency that is more or less on par with other jurisdictions in the country. The budget documents, the financial statements, the annual reports of the Departments, the Audit Reports of the CAG and the Reports of the legislative committees are in the public domain and contain plethora of financial information for informed debate and discussion and for holding Government accountable. The State's Fiscal Responsibilities and Budget Management Act, 2005, seeks to ensure greater transparency in fiscal operations of the Government and conduct of fiscal operations in a medium-term framework. Suggestions made in the preceding chapters for additional disclosures like the amounts of tax expenditure and debt maturity profile would be in line with the best practice. Wider dissemination of the reports already being published will enhance civil society involvement.

4. GoR is commended for having recognized the importance of public access to information in its quest for strengthening good governance and public accountability. The passage of the Right to Information Act in May 2000 and its notification in January 26, 2001 thereafter, well ahead of most other States and the Central Government[68], is a testimony to the forward looking approach being adopted for improving governance and accountability.

5. The global experience with such legislations is that when properly structured and implemented such legislation promotes public confidence in government, higher productivity of resources and leads to a healthier environment for investment and growth along with greater public participation in the developmental process. In Rajasthan the effective use of the State - Right to Information Act by certain Non-Government Organizations like the Mazdoor Kisan Shakti Sangathan and the Urmul Jyothi Trust has led to the detection and exposure of numerous cases of leakages and mis-utilization of

[67] Supreme Court of India, State of Uttar Pradesh vs. Raj Narain AIR1975 SC865; Ministry of Information and Broadcasting vs. Cricket Association of Bengal Supreme Court Cases 1995(2); Vineet Narain vs. Union of India AIR 1998 SC 889

[68] The Central Freedom of Information Act 2000 did not come into force in the absence of the related rules that were to be notified under the Act; the Act has since been repealed.

public funds, subsequent remedial action by way of refunds and recoveries and has had deterrent effect. The right to information has indeed force multiplier effect for promoting transparency and accountability.

Strengths and Opportunities for Improvement

6. The State - Right to Information Act provides a reasonably good framework for providing the public right to information. The framework covers all Government departments and agencies and the steps to be taken for its implementation have been spelled out and communicated widely within Government.

7. There are no major unreasonable conditions imposed on public to obtain access, including cost of application. In furtherance to the Act, major Government departments having public dealings have taken steps to implement the Act, by promulgating the Citizen's Charter. The Charter is meant to demystify the Government administrative procedures for general public, by displaying relevant information on services due to citizens on boards and conspicuous areas.[69] The experience in the implementation of the law can be built upon for the implementation of the Central - Right to Information Act, 2005.

8. There is however an impression that the State - Right to Information Act does not go far enough. Neither the Act nor the rules framed under the Act prescribe the mandatory *suo moto* disclosures. These are left to the individual departments; and the departments have been content merely to notify the Citizen's Charter. The Act does not define the exclusions sufficiently narrowly and the principle of severability is not laid down in the Act.

9. The Act prescribes the time limit of one month within which the information must be supplied. The Act also prescribes a similar time limit of one month within which the first appeal (that lies with the district vigilance committee/departmental authority) must be decided. But, the delay in deciding the appeal is not automatically treated as rejection. In the absence of an order by the first appellate authority, the independent second appellate authority has refused intervention on the ground that there is no impugned order against which it can entertain an appeal! This leaves the applicant in the unenviable position of a double jeopardy; first he is not provided the information and second the appellate authority refuses to intervene.

10. The penalty provisions in the Act do not inspire confidence. The Act prescribes levy of penalties for willful refusal to supply information or for willful supply of incorrect information. But such a penalty can be levied only by the departmental authorities and under the relevant disciplinary rules. The disciplinary authority is only part of the State administrative machinery and not an independent authority and anyhow the disciplinary proceedings notoriously take time.

[69] The World Bank, Rajasthan Closing the Development Gap, August 2005

Table 9 – Access / Right to Financial Information

Strengths	Opportunities for Improvement
Over-all fiscal transparency • Fiscal Transparency compares well with other States • Budget documents, Annual Financial Reports, Annual Reports of the Departments, Audit Reports, Reports of the PAC/COPU in the public domain • FRBM Act 2005 seeks to further enhance fiscal transparency *State Right to Information Act* • GoR among the first few States to enact and implement Right to Information law at the State level *Central Right to Information Act* • The Central - Right to Information Act, 2005, which is much wider in its ambit, becomes automatically applicable in Rajasthan. GoR can build on the experience already gained in the implementation of the State law	*Over-all fiscal transparency* • Need for wider dissemination of various publications; opportunities already listed at appropriate places will promote over-all fiscal transparency *State Right to Information Act* • State - Right to Information Act does not prescribe the suo moto disclosures; these are left to the discretion of individual departments • Exclusions are not narrowly defined in the State law • Absence of principle of severability • No independent authority to levy penalties for non-supply of information; the power continues to vest in the departmental authorities only • Delay in supply of information beyond the stipulated period in the first appeal not treated as denial • Too legalistic an interpretation has prevented the redressal of appeals in favor of the information seekers • Neither the law nor its implementation perceived to be sufficiently citizen-friendly *Central Right to Information Act* • Make preparations for the implementation of the Central law, notify the Rules, issue suitable instructions, notify/appoint information officers, appoint independent Information Commissioner • Initiate action to propagate the provisions of the law; earmark and disclose commitment of financial resources for the purpose • Promote and enhance culture of transparency with mindset change in the bureaucracy • Streamline information systems

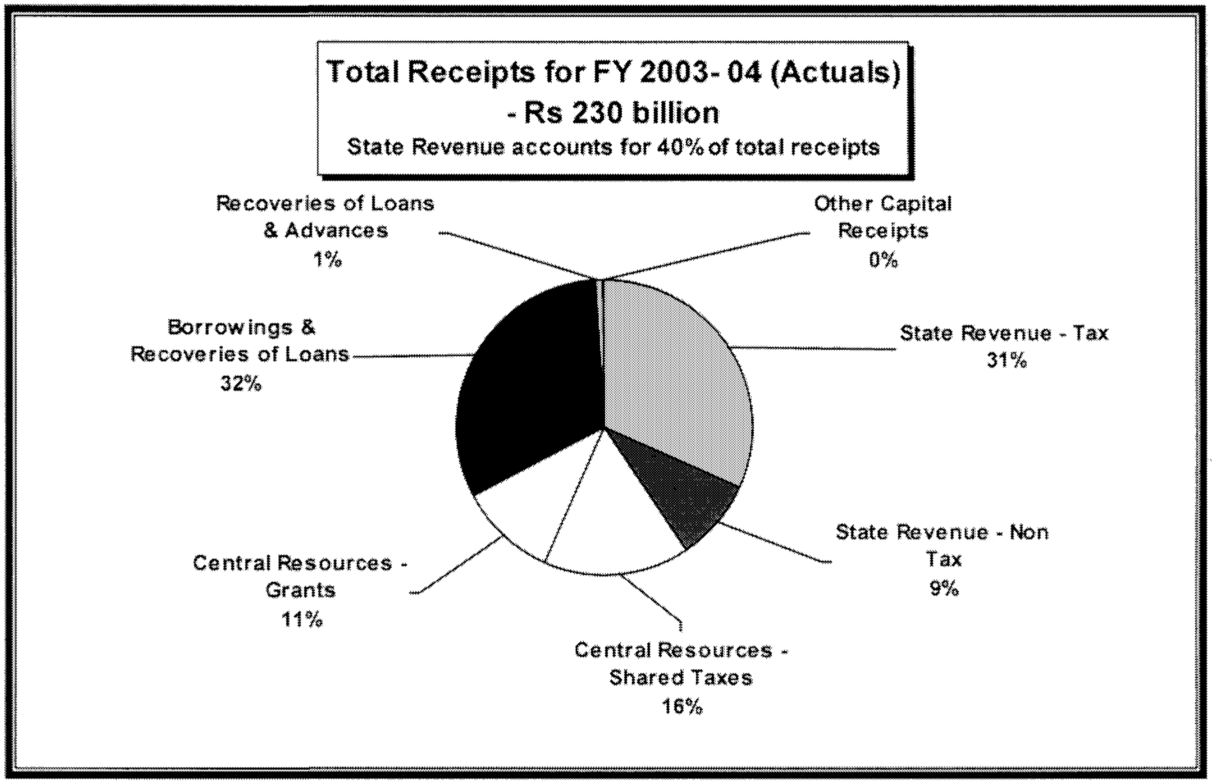
Way Forward

11. The real challenge before the GoR is the implementation of the Central - Right to Information Act, 2005 that is much wider in its ambit and sweep. The Act narrowly defines the exclusions with the over-riding proviso that information that cannot be denied to a member of the State legislature shall also not be denied to any person. The Act prescribes a whole range of *suo moto* disclosures. The power to levy penalties for violating the provisions of the Act has been vested in the independent State Information Commissioner. The Act also contains provision for the propagation of the right to information.

12. In view of this new development GoR needs to streamline its records management and information systems with adequate use of computers. The initiatives already under way by way of e-Mitra, land record computerization project, computerization of activities of the Departments of Commercial Taxes, Excise, Transport and Registration and Stamps can be hastened and leveraged. Action could be taken to place maximum information on the web site. Constructive use of publicly available reports on the internet could help to address a number of the accountability and responsibility problems raised in the report. GoR also needs to issue general instructions for the guidance of staff; impart the necessary training; and promote a culture of transparency with change in the mindset of bureaucracy that recognizes that information is no longer its monopoly and that it will be held accountable on a day-to-day basis, and not only for the results but also for its actions and processes. Regular orientation programs may be held for the Officers with the specific purposes of training them about better record management; improving access to information and reducing secrecy; benefits of transparency and accountability; and providing widespread publicity to the Act.

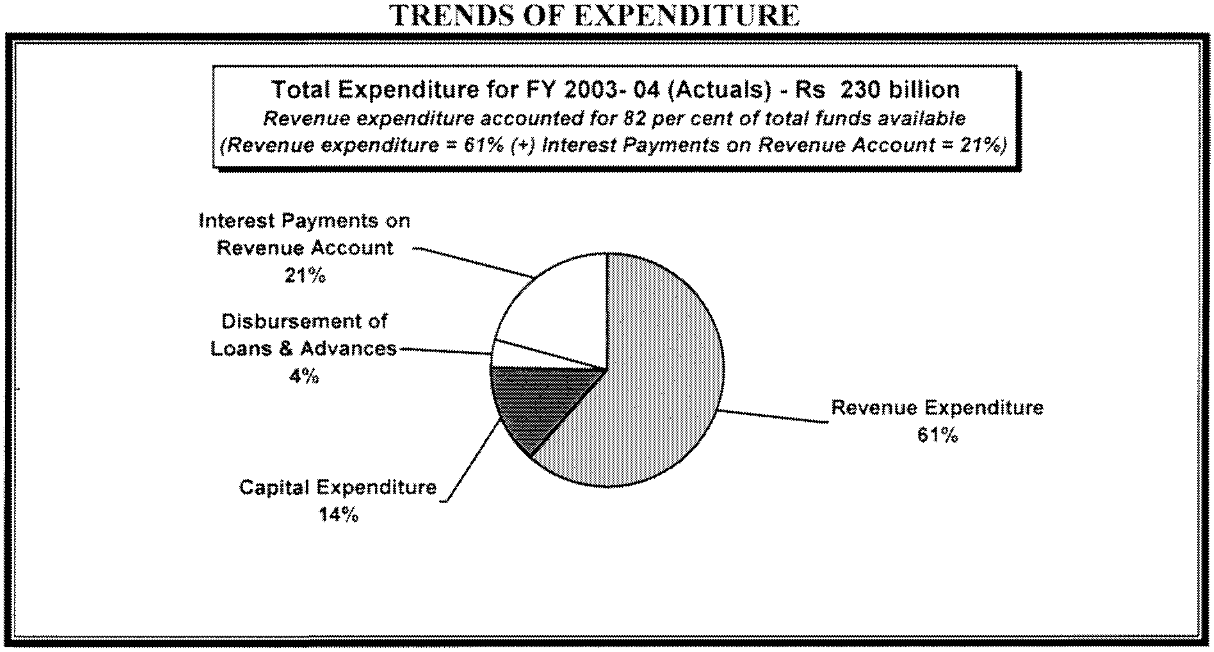
Annexure I

RESOURCES OF RAJASTHAN



Source: Government of Rajasthan 'Accounts at a Glance 2003-2004'

TRENDS OF EXPENDITURE



Source: Government of Rajasthan 'Accounts at a Glance 2003-2004'

A synopsis of the finances of the State Government (from the Report of the CAG (civil) for the year ended 31 March 2004)

- The revenue receipts of the State Government constitute only 24 per cent of the total receipts, balance came from Capital receipts and Public Account receipts.
- 60 per cent of the revenue came from the State's own resources, Central tax transfers and grants-in-aid contributed towards the remaining 40 per cent of the total revenue.
- The growth rate of total expenditure was higher than the growth rate of revenue receipts during the year. Revenue receipts could cover only about 67 per cent of the total expenditure in 2003-04, leaving the balance to be financed from borrowings.
- Revenue expenditure accounted for 82 per cent of total funds available during 2003-04, which was higher than the share of revenue receipts (67 per cent of total receipts) of the State Government, leading to revenue deficit.
- Interest payments increased steadily (from Rs 28.25 billion in 1999-00 Rs 47.77 billion in 2003-04) primarily due to continued reliance on borrowings for financing the fiscal deficit.

Given the rising revenue expenses, the allocative priorities of the State need due consideration.

Statement of Allocative Priorities of Expenditure for the Years 2001-02 to 2003-04

(Rupees in billions)

		2001 - 2002		2002 - 2003		2003 - 2004	
		Budget	**Actual**	**Budget**	**Actual**	**Budget**	**Actual**
(A)	*Revenue & Capital Expenditure*						
(i)	Revenue Expenditure	162.34	159.49	182.14	170.16	190.98	188.48
(ii)	Capital Expenditure	19.19	18.17	25.70	20.27	34.44	31.77
(B)	*Plan & Non Plan Expenditure*						
(i)	Plan Expenditure	40.30	39.33	50.65	40.29	65.40	53.48
(ii)	Non Plan Expenditure	141.25	138.36	157.19	148.15	160.02	166.81
(C)	*Sectoral Distribution*						
(i)	General Services	73.41	72.20	82.77	76.87	85.38	84.94
(ii)	Social Services	72.41	70.70	80.50	73.37	87.39	84.79
(iii)	Economic Services	35.53	34.75	44.58	40.20	52.63	50.51

Source: Government of Rajasthan 'Budget at a Glance'

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure reflect the allocative priorities of the State. Higher the ration of these components to total expenditure, better is deemed to be the quality of expenditure.

Quality of expenditure (*per cent* to total expenditure*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	20.9	19.5	22.1	22.2	24.2
Capital Expenditure	10.1	8.4	10.2	10.6	14.4
Developmental Expenditure	60.5	59.7	59.4	59.6	61.4

* *Total expenditure excludes expenditure on loans and advances*

Source: Report of the CAG (Civil) for the year ended 31 March 2004, Government of Rajasthan

Annexure II

Budget Literature - GoR

The budget literature, which is furnished to the Rajasthan State Legislative Assembly, comprises

The Finance Minister's Budget Speech: This gives an analytical review of the salient features of the financial situation and indicates in broad outline any special steps that may be considered necessary and desirable to secure a balanced budget, which may prove to be an effective instrument of economic development.

Detailed Estimates and Demand for Grants; These contain the following:
Volume –I: Summary and Statement of Revenue and Receipts and Expenditure and Disbursements by Major Heads, Schedule of Demands for Grants and Appropriations;
Volume -2A: Detailed Estimates of Revenue receipts;
Volume- 2 B: Detailed Estimates of Revenue Expenditure (General Services);
Volume-2C: Detailed Estimates of Revenue Expenditure (Social Services);
Volume-2D: Detailed Estimates of Revenue Expenditure (Economic Services);
Volume-3A: Detailed Estimates of Capital Receipts and Expenditure;
Volume –3 B: Detailed Estimates of Receipts and Disbursements of Public Debt, Loans and Advances, Contingency Fund and Public Account;
Volume –4A: List of pay Scales, Rates of allowances, Summary of Officers and establishment along with details;
Volume-4B: Headwise details of grants to Panchayat Samitis and Zila Parishads; details of receipts and expenditure of Centrally Sponsored Schemes, Sector and Headwise Provisions for Plan Schemes, Component Plan, Special Central Assistance, List of Standard Objects, Statement of Investments, Loans and Guarantees, Targets and Achievements and Funding Pattern of Annual Plan and Glossary of Words; and
Volume –4C; Details of various Public Works.

Demands for Grants

According to the Rules of Procedure and Conduct of Business in Rajasthan Legislative Assembly, a separate demand shall ordinarily be made in respect of the grant proposed for each department. However, the Finance Minister may include in one demand grants for two or more departments or make a demand in respect of expenditure, which cannot be readily classified under any particular departments.

Other Documents

GoR also brings out the following two other documents viz; Budget at a Glance and Budget Study; these are prepared by the State Government's Directorate of Economics and Statistics in collaboration with the Finance Department and contain useful budget analysis.

The document ***Budget at a Glance*** depicts 'Where Rupees Comes From' and 'Where Rupees Goes to'; a source-wise analysis of receipts; and destination-wise analysis of expenditure, 'revenue' and 'capital', ' non-Plan' and 'Plan' and within these expenditure on General Services, Social Services and Economic Services. It also contains 'Highlights' of the State's Annual Plan for the budget year. The amounts of revenue deficit, fiscal deficit, budgetary deficit and primary deficit are also stated.

The document ***Budget Study*** provides more detailed time series analysis (with actuals of the preceding three years) of revenue receipts from different sources and information on sectoral break-up of expenditure as between Developmental Expenditure and Non-Developmental Expenditure, and Expenditure on General Services, Social Services and Economic Services with trend indexed to base-year 1993-94. It also contains information of expenditure on critical sectors like Medical, Public Health and Family Welfare, Water Supply, Agriculture and Allied Activities, Industry, Education, Arts and Culture etc.

Both the documents make extensive use of graphs and charts for enhanced reader friendliness.

Additionally, GoR brings out *an **Economic and Purpose Classification of the State Government Budget**.* The 'Economic Classification' shows in the aggregate the revenue receipts and expenditure of GoR by their economic character enabling to depict the capital formation out of budgetary resources, savings of the State Government, and the generation of the State Domestic Product etc. The 'Purpose Classification' deals with the classification of the Government expenditure according to the different types of services provided directly or financed by the GoR through current and capital transfer

Statement of Comparison of GoR Accounts with IFAC Standard

The International Federation of Accountants, Public Sector Committee (IFAC-PSC) has recently issued a standard for Governments keeping their accounts on a cash basis.[70] This applies to the general-purpose annual financial statements of all public sector entities except Government business enterprises (public enterprises) for years beginning after 1 January 2004. Financial statements may not be described as complying with the standard unless they comply with all the requirements of Part 1. Part 2 sets out additional disclosures that IFAC encourages Governments to make. It also encourages Governments to progress to the accrual basis of accounting, for which different standards apply. The box below shows the major features of the standard and how GoR accounts relate to them.

Comparison of Government of Rajasthan Accounts with IFAC Standard	
IFAC-PSC: Cash Basis Standard – Part 1	**GOR (Per Finance Accounts 2003-2004)**
Statement of receipts, payments and cash balances	Provided in Statement No. 1
Disclosure of accounting policies	Some explanation of items and summaries of results, but no statement of accounting policies
Separate annual financial statements for each Department and other entity, and consolidated statements for GoR	No separate statements for lower level entities. GoR only, and some entities under Government control omitted
Statements understandable, relevant to users and presented within six months of end of year, reliable, and complete	Appropriation Accounts understandable, but Finance Accounts not so user-friendly. The deficiency is made up by the document 'Accounts at a Glance'. Accounts sent to Governor in September 2004 within six months of the close of the financial year but became public only in March 2005. Accounts are believed to be reliable and complete,
Statements to show date of issue, and who has authorized them for issue	Yes, in CAG certificate
Information about the entity – its operations, controlling legislation, and departments and other entities included	Not shown
Any cash balances that are subject to restrictions on their use, and undrawn borrowing facilities	Not shown
Comparative information for the previous year	Shown

[70] IFAC Public Sector Committee (2003) *Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting*. Available on IFAC website www.ifac.org

Additional Disclosures Encouraged under Part 2

Assessment whether entity is a going concern (in the case of a lower-level entity)	Not applicable
Extraordinary items (such as disaster relief)	Not identified, if any
Classification of payments by function and/or nature of payment, and receipts by type	Yes. Payments are classified by function, and by standard object within function. Receipts classified by type
Proceeds from borrowing, by type and source	Shown
Assets and liabilities of the entity	Only financial assets and liabilities listed, no physical assets
Comparison with budgets	Yes, for revenue and expenditure only (in Appropriation accounts)
Proportion of ownership interest in controlled entities	No definition of controlled entities
If intending to convert to accrual accounting, classification of cash flows into operating, investment and financing activities	Not done

Annexure IV

LIST OF DOCUMENTS REVIEWED

The following documents were studied during the course of the study:

1. A Battle Half Won, by Neelabh Mishra Combat Law, Special Issue, Feb 2003.
2. Accounting Standards Framework: Implementation Guide for SAIs: Management Discussion and Analysis of Financial, Performance and Other Information, Internal Control Standards Committee, INTOSAI, October 2001
3. Accounts at a Glance 2001-2002 Government of Rajasthan
4. Accounts at a Glance 2002-2003 Government of Rajasthan
5. Accounts at a Glance 2003-2004 Government of Rajasthan
6. Administrative Reports of the Department of Commercial Taxes, GoR, 2001-2002, 2002-2003, 2003-2004 and 2004-05
7. Administrative Reports of the Directorate of Treasury and Accounts, GoR, 2002-2003, 2003-2004 and 2004-05
8. Administrative Report of the Office of the Accountant General (A&E) for the year 2002-2003
9. Administrative Report of the Office of the Accountant General (A&E) for the year 2003-2004
10. Administrative Report of the Office of the Accountant General (Audit) II for the year 2002-2003.
11. Administrative Report of the Office of the Accountant General (Audit) for the year 2003-2004
12. Administrative Report of the Office of the Principal Accountant General (Audit) for the year 2002-2003
13. Administrative Report of the Office of the Principal Accountant General (Audit) for the year 2003-2004
14. Annual Administrative Report of the Directorate of Evaluation for the year 2003-2004 Government of Rajasthan
15. Annual Administrative Reports of the Directorate of Inspection for the years 2002-2003 and 2003-2004 Government of Rajasthan
16. Annual Progress report of the Public Works Department, GoR, 2004-05
17. Approach to the Tenth Five Year Plan (2002-2007) Government of India Planning Commission
18. Appropriation Accounts 2001-2002 Government of Rajasthan
19. Appropriation Accounts 2002-2003 Government of Rajasthan
20. Appropriation Accounts 2003-2004 Government of Rajasthan
21. Budget at a Glance/ Modified Budget at a Glance for the years 2001-2002, 2002-2003 and 2003-2004 Government of Rajasthan
22. Budget Documents for the years 2004-2005 and 2005-2006 Government of Rajasthan
23. Budget Manual Volume I Government of Rajasthan
24. Budget Speech of the Honourable Chief Minister of Rajasthan, March 23, 2005
25. Budget Speech of the Honourable Finance Minister of India, February 28, 2005
26. Budget Study/Modified Budget Study for the years 2001-2002, 2002-2003 and 2003-2004 Government of Rajasthan

27. Chasing a Right- Aruna Roy & Nikhil Roy.
28. Combating Corruption: Look Before you Leap – Anwar Shah & Mark Schacter.
29. Delhi Authorities Condone Vicious Attacks, newspaper article.
30. Do you know about referral funds? Hindustan Times, Jaipur April14, 2004.
31. E-Governance: Commenting Communities, Dispersing Service, E-Governance Session 1- 14th Feb'05.
32. Economic and Purpose Classification of the State Government Budget for the year 2003-2004 Government of Rajasthan
33. Exposure Draft 4: Presentation of Financial Reports, Proposed Indian Government Accounting Standard, Government Accounting Standards Advisory Board (GASAB), October 2004
34. Exposure Draft 5: Components of Financial Reports, Proposed Indian Government Accounting Standard, Government Accounting Standards Advisory Board (GASAB), October 2004
35. Finance Accounts 2001-2002 Government of Rajasthan
36. Finance Accounts 2002-2003 Government of Rajasthan
37. Finance Accounts of 2003-04, Government of Rajasthan
38. Freedom of Information Act 2002
39. Freedom of Information: Principles for Legislation By Venkat Iyer.
40. General Financial and Accounts Rules Volume I Government of Rajasthan
41. General Financial Rules 2005 Government of India
42. Good governance, Right to information and Citizens' Charter: The Rajasthan Scenario, by Damodar Sharma.
43. Government agrees to provide copy of records on payment of cash, Article from The Hindu, 4th Jan 2005.
44. Guidance for Reporting on the Effectiveness of Internal Control: SAI Experiences in Implementing and Evaluating Internal Controls, Internal Control Standards Committee INTOSAI, 1997
45. Guidelines for Internal Control Standards for the Public Sector, Internal Control Standards Committee, INTOSAI, June 1992
46. Home (Gr-V) Department Notification Jaipur, Jan 15'01.
47. In Report 6-Access to Information, Government of Canada Published in Nov 2001.
48. India – Orissa State Financial Accountability Assessment, Report of the World Bank, May 2004
49. Information: an inviolable right Jan 3, 2005, By Nirmala Lakshman.
50. Internal Control: Providing a Foundation for Accountability in Government, Internal Control Standards Committee, INTOSAI, 2001
51. International Federation of Accountant, Public Sector Committee Cash Basis Standards
52. Karnataka – Public Financial Management and Accountability Study, Report of the World Bank, April 2004
53. Legislation on Freedom of Information: Trends and Standards-The Development Economics Vice Presidency and Poverty Reduction and Economic Management Network.
54. Medium Term Fiscal Plan for Karnataka, Finance Department, GoK, 2004

55. Note on the Conference of Finance Secretaries to the State Governments, November 2004
56. Open Sesame Looking for the Right to Information in the Commonwealth, CHRI Report 2003.
57. Opening Budgets to Public Understanding and Debate – The International Budget Project.
58. Parliament and Access to Information: Working for Transparent Governance, Conclusions of a CPA-WBI study group on Access to Information, held in partnership with the Parliament of Ghana, 5-9 July 2004, by Toby Mendel.
59. Peoples Right to Information Movement: Lessons from Rajasthan by Neelabh Mishra.
60. Performance Budgets Departments of Agriculture, Rural Development, Higher Education, and Public Health Engineering for the year 2004-2005
61. Performance Evaluation of Targeted Public Distribution System, Planning Commission, Government of India
62. Presentation at Sarai by Debashish Sankhari, CHRI.
63. Rajasthan – Closing the Development Gap (August 2005) The World Bank
64. Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Civil) Government of Rajasthan
65. Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Civil) Government of Rajasthan
66. Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Civil) Government of Rajasthan
67. Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial)) Government of Rajasthan
68. Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Commercial)) Government of Rajasthan
69. Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Commercial)) Government of Rajasthan
70. Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Revenue Receipts) Government of Rajasthan
71. Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 (Revenue Receipts)) Government of Rajasthan
72. Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Rajasthan
73. Report of the Core Group on Voluntary Disclosure Norms for the State Governments (2001) Reserve Bank of India
74. Report of the Group to Assess the Fiscal Risk of State Government Guarantees (2002) Reserve Bank of India
75. Report of the Twelfth Finance Commission Government of India
76. Right to Information Act 2000 (Government of Rajasthan)
77. Right to Information Act, 2005 (Central Government)
78. Right to Information as a Human Right and Developments in India.
79. Right to Information in Rural India By Soumya Kidambi.
80. S.R. Maheshwari, Theories and Concepts in Public Administration.

81. Sample formats from the Department of Treasury and Accounts showing:
    - Major Head-wise revenue receipt
    - Major Head-wise expenditure booked
    - Statement showing major head-wise revenue receipt
    - Statement showing major head-wise Expenditure
    - Monthly Statement of Revenue Receipts

82. Sample formats of the following from the Department of Commercial Taxes:
    - Statement with dealer registration details, DCT, GoR
    - Statement of monthly tax collection and red entry details, DCT, GoR
    - Yearly statement of status of current and past demand
    - Statement of dealers who have deposited more than Rs. 1 Lakh in tax
    - Classification of dealers
    - Status of refund cases
    - Entry Tax details
    - Statement of loss of revenue due to tax-exempt movies and revenues from video parlours/cable operators
    - Daily revenue receipt register
83. Sample Monthly Account of the PWD
84. Sample Monthly Expenditure Report, Police Department, GoR
85. Sample statement from the AG's office showing Controlling Officer-wise monthly Expenditure with Budget provision
86. State Development Rajasthan Report 2003 by Social Policy Research Institute
87. Statistical Abstract of the Commercial Taxes department, GoR, 2001-02 and 2002-03
88. Study by Centre for Media Studies, June 30, 2005
89. Study on Conceptual Framework of Government Accounting System in India
90. Submission of Mr. Chitta Behera Orissa on the RTI Bill 2004 to the standing Committee and Committee on Petitions.
91. The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971
92. The Constitution of India
93. The Freedom of Information Bill 2002—A comparative perspective by Deepika Mogilishetty-Farias, Commonwealth Human Rights Initiative.
94. The Movement for Right to Information in India: People's Power for the Control of Corruption By Harsh Mander & Abha Singhal Joshi.
95. The Rajasthan Fiscal Responsibilities and Budget Management Act, 2005;
96. The relevance of a freedom of Information Act by Chusrow Irani.
97. The Right to Information Law in India --- A Comparative Picture by Rani Advani.
98. Turning Right to information Law into a living reality, Access to information and the imperative of effective implementation by Richard Colland, Executive Director, The Open Democracy Advice Centre, Cape Town, South Africa.
99. Website of the Comptroller and Auditor General of India

Annexure V

LIST OF OFFICIALS MET

(A) Government of Rajasthan

1. Dr. Rajeev Mehrishi Principal Secretary, Finance Department.
2. Dr. Govind Sharma (Former) Secretary Finance Department
3. Dr. Shyam Aggarwal (Former) Secretary Finance Department
4. Secretary Department of Planning, Institutional Finance, 20 Point Programme and Project Planning Department
5. Commissioner Commercial Taxes Department
6. Mr. Vinod Pandya Director Finance Department
7. Mr. S. K. Mittal Director Finance Department
8. Mr. K. K. Gadioek Deputy Secretary Finance Department
9. Mr. M. K. Jain Deputy Secretary Finance Department
10. Mr. O. P. Sharma Director of Treasuries and Accounts
11. Additional Director of Treasuries and Accounts
12. Mr. Harphool Singh Director of Inspection
13. Mr. Prashar Director Evaluation
14. Mr. Ashok Pradhan Financial Controller Rajasthan Council for Primary Education
15. Finance Secretary (Expenditure)
16. Principal Secretary, Education
17. Director, Elementary Education,
18. Principal Secretary, PWD
19. Chief Engineer cum Additional Secretary, PWD
20. Accounts officers, PWD
21. Additional Chief Secretary, Home
22. Additional Director General of Police (ADGP), Jaipur
23. Chief Accounts Officer, Police Department, Jaipur
24. Director, Pension
25. Director, Quality Control
26. Secretary, Energy Department
27. Additional Commissioner (IT and Weights and Measures), DCT

(B) Centre for Good Governance

28. Dr. Rakesh Hooja Principal Secretary and Director
29. Mr. Arvind Mayaram (Former) Principal Secretary and Director
30. Mr. Dhariwal Additional Director
31. Mr. P.K. Jain
32. Mr. Ojha

(C) Secretariat of the Rajasthan State Legislative Assembly

33. Secretary
34. Special Secretary

*(D) Officers of the Comptroller and Auditor General of India at Rajasthan**

35. Mr. B. R. Mandal Principal Accountant General (Audit)
36. Mr. D.S. Nehra (Former) Accountant General (Audit) II
37. Ms. Saroj Punhani Accountant general (Audit) II
38. Mr. Chandra Lal Accountant General (A&E)

* Pointed to the relevant literature available in the public domain