Executive Summary

Background

In May 2005, Assam Government responded to the Twelfth Finance Commission's recommendations by legislating its "Fiscal Responsibility and Budget Management (FRBM) Act". Keeping in view the fiscal targets laid down in the FRBM Act, the State Government developed reform agenda through fiscal correction path in the medium term with the long-term goal of securing growth stability for its economy. The State Government's commitment to carry forward these reforms is largely reflected in certain policy initiatives announced in the budgets subsequently. While the benefits of FRBM legislation have been realized to a great extent already, in terms of reduction in major deficit indicators etc, the State Government resolve to introduce new pension policy, setting up of guarantee redemption fund and a host of other institutional and sectoral reform measures will go a long way in building up the much needed 'fiscal space' for improving the quality of public expenditure and to promote fiscal stability.

The State Government has done well in establishing an institutional mechanism on fiscal transparency as evident from the year-on-year presentation of the performance of the State during the FRBM Act regime in terms of key fiscal targets fixed for selected variables laid down in the Act. These outcome indicators tend to serve the limited purpose of measuring the performance against the targets. They do not, however, give the 'big picture' of the status of financial management including debt position and cash management etc, for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's civil audit reports step in to fill this gap. C&AGs reports have been commenting upon the Government's finances for over three years since the FRBM legislation and have published three reports already. Since these comments formed part of the civil audit report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to center-stage once again, a stand-alone report on State

Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG has decided to bring out a separate volume titled "Report on State Finances".

The report

Based on the audited accounts of the Government of Assam for the year ending March 2009, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

Chapter-I is based on the audit of Finance Accounts and makes an assessment of Assam Government's fiscal position as on 31 March 2009. It provides an insight into trends in committed expenditure, borrowing pattern besides a brief account of central funds transferred directly to the State implementing agencies.

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

Chapter-III is an inventory of Assam Government's compliance with various reporting requirements and financial rules.

Audit findings and recommendations

Fiscal correction: Although the Assam Government has achieved the deficit targets, before the time lines prescribed in the Act, it has to initiate requisite corrective measures to contain the expenditure on salaries relative to its own resources, to achieve the corresponding FRBM targets within the time frame prescribed in the Act. The State has the reasonable prospect of achieving the targets set out in the FRBM Act provided an effort is made to increase tax compliance, reduce tax administration costs, make efforts to collect revenue arrears (Para-1.3.3)

Greater priority to capital expenditure: The State may consider reprioritizing its outlays, in view of the fact that its capital expenditure-aggregate expenditure ratio is lower than the average for all the States (Table-1.7).

Adequate thrust to development and social sector expenditure: The per capita development expenditure and per capita social sector expenditure in Assam is much lower than the national average even though the State is spending adequate amounts compared to the rest of the country. This calls for a serious introspection on whether the capacity of the State to utilize expenditure for developmental and social outcomes can be improved by better design of schemes, reducing administration costs, timely implementation, closer monitoring etc. Cost and time overruns of incomplete projects (Para-1.6.1) are inevitable by-products of weak control systems. The State can work towards further improvements in this area so that people derive envisaged benefits in the quickest possible time. Outcome budgeting should be able to mitigate this weakness.

Review of Government investments: The average return on Assam Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives varied between 0.93 to 1.21 *per cent* in the past three years whereas its average interest outgo was in the range of 6.76 to 7.66 *per cent* (Para-1.6.2). This is obviously an unsustainable proposition. The State Government should, therefore, hasten to seek better value for money in investments. Otherwise, high-cost borrowed funds invested in projects with low financial return will continue to strain the economy. Projects, which are justified on account of low financial but high socio-economic return, may be identified and prioritized with full justification for the high-cost borrowings. Time has come to revisit the working of state-owned public sector undertakings, incurring huge losses (Para-1.6.2) and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close down (if they are not likely to be viable given current market conditions).

Prudent cash management: The cost of holding surplus cash balances is high. In 2008-09, the interest received against investment on cash balance was four *per cent* while Government paid interest at the rate of 6.76 *per cent* on its borrowings during the year. (Para-1.6.4). Proper debt management through advance planning could minimize the need for the State Government to hold large cash surpluses.

Debt sustainability: The Government of Assam should ideally keep the debt-GSDP ratio stable. Borrowed funds should be used as far as possible only to fund capital expenditure and revenue expenditure should be met from revenue receipts. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Oversight of funds transferred directly from the GOI to the State implementing agencies: As long as these funds remain outside the State budget, there is no single agency monitoring its use and there is no readily available data on how much is actually spent in any particular year on major flagship schemes and other important schemes which are being implemented by State implementing agencies and are funded directly by the GOI. A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).

Financial management and budgetary control: Slow pace of programme implementation in the State left an overall saving of Rs.9,826 crore offset by excess of Rs.108 crore; which requires regularization under Article 205 of the Constitution of India (Paras-2.2 and 2.3.7). 'Diary Development' and 'North Eastern Council' sectors posted large savings persistently for the last five years (Para-2.3.2). There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. In many cases, the anticipated savings were not surrendered. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/surrender orders should be avoided. The Abstract Contingent Bills had not been adjusted for long periods of time which was fraught with the risk of mis-appropriation and therefore needs to be monitored closely.

Financial reporting: State Government's compliance with various rules, procedures and directives was unsatisfactory as is evident from delays in furnishing utilization certificates against the loans and grants from various grantee institutions. Delays also figured in submission of annual accounts by some of the autonomous bodies/authorities. There were instances of losses and misappropriations. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent such cases in future.