

EXECUTIVE SUMMARY

BACKGROUND

Government of Arunachal Pradesh responded to the Twelfth Finance Commission's (TFC) recommendation by legislating "Arunachal Pradesh Fiscal Responsibilities and Budget Management (APFRBM) Act" in March 2006. The Act sets out a 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 implemented the Value Added Tax during 2005-06 which will have an impact on the tax revenue of the State.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of outcome budgets. These outcome indicators tend to serve a limited purpose of measuring the performance against the targets. They do not, however, give the 'big picture' of the overall financial management including debt position, cash management, etc. for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's (C&AG) Civil Audit Reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for two years since APFRBM legislation and have already published two reports. 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 centre-stage once again, a stand-alone report on State Government finances is considered as 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 of the Comptroller and Auditor General of India on State Finances".

THE REPORT

Based on the audited accounts of the Government of Arunachal Pradesh 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 Arunachal Pradesh Government's fiscal position as at 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 through off-budget route.

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 Arunachal Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings.

Audit findings and recommendations

Fiscal Correction Path

Revenue surplus increased by Rs.217 crore in 2008-09 but fiscal deficit and primary deficit, has deteriorated in 2008-09 relative to the previous year. The reason for deterioration in fiscal deficit is mainly due to more expenditure incurred under Capital outlay. Moreover, the fiscal performance of the State vis-à-vis targets set in Fiscal Correction Path as well as Arunachal Pradesh Fiscal Responsibility and Budget Management Act and Budget indicate a dismal picture during the year.

(Paragraph 1.10)

Revenue Receipts

Central transfers comprising state's share of Central taxes and grants-in-aid from the Government of India increased by Rs.700 crore in 2008-09 and contributed around 82 per cent of the incremental revenue receipts during the year, indicating that the State continued to rely on Central transfers for their revenue receipts. The total loss of revenue due to underassessment/short levy/non-levy of taxes, etc., which was 3 per cent of the State's own resources consisting of tax and non-tax revenue during 2008-2009, indicates the presence of loopholes in resources mobilization. Pending revenue arrears constituted over 48 per cent of tax revenue of the State during 2008-09.

(Paragraph 1.3)

Expenditure Pattern

The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure, declined by 6.20 per cent in the current year, it hovered around 80 per cent during the period (2004-09) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, Non Plan Revenue Expenditure (NPRE) at Rs.1753 crore in 2008-09 constituted 61 per cent and remained significantly higher than the normatively assessed level of Rs.948 crore by Twelfth Finance Commission for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE and was about 66 per cent during 2008-09.

(Paragraph 1.4.1.2)

Prevalence of Fiscal Deficit

The prevalence of fiscal deficit indicates continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State for the future. Fiscal liabilities stood at 65.13 per cent of the GSDP in 2008-09 and would further increase to 65.14 per cent after incorporating the contingent liabilities. This is within the limit of liabilities as percentage of GSDP as the figure prescribed in the MTFP statement was 73.79 per cent.

(Paragraph 1.9.1)

Return on investment

The average returns on investment in Statutory Corporations, Government Companies and Co-operative Societies was almost nil during 2004-09, while the Government paid interest at an average rate of 7.71 per cent on its borrowings during the period. The increased fiscal liabilities accompanied by a negligible rate of return on Government investments, and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.

(Paragraph 1.6.2)

Accounting of funds transferred to State Implementing Agencies

The Central Government has transferred Rs.422.45 crore directly to the State Implementing Agencies for implementation of various schemes/programmes in social and economic sectors. A system has to be 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 State Accountant General.

(Paragraph 1.2.2)

Financial management and budgetary control

There was a net savings of Rs.1869.08 crore, after adjusting the excess of Rs.70.60 crore from total savings of Rs.1939.68 crore. The excess of Rs.70.60 crore requires regularisation under Article 205 of the Constitution of India. Four grants, viz "Secretariat-Economic Services", 'Education', 'Public-Works', and 'Power' posted large savings persistently for the last five years. 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 either not surrendered or surrendered on the last day of the year leaving no scope for diverting these funds for other development purposes. Detailed bills were not submitted for large amount of advances drawn on

abstract contingent bills. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Fund releases at the fag end of the year and issuance of re-appropriation/surrender orders should be contained.

(Chapter II)

Financial Reporting

State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from the delay in furnishing utilization certificates for grants given by Urban Development and Panchayati Raj Department and also non-submission of information regarding utilization certificates by the Finance Department. Regarding losses and misappropriation also, the information is still awaited from the State Finance Department.

(Chapter III)