Executive Summary

This Report on the Finances of the Government of Assam is being brought out with a view to assess objectively the financial performance of the State during the year 2009-10. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into both well performing as well as ill performing schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in Fiscal Responsibility and Budget Management Act, 2005 as well as in the Budget estimates of 2009-10. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to other States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over four years since the FRBM legislation and have published four 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 centre-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 had decided to bring out a separate volume titled "Report on State Finances". This Report is the second in this endeavour.

Based on the audited accounts of the Government of Assam for the year ending March 2010, 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 the Government of Assam's fiscal position as on 31 March 2010. 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. Besides, consequent upon the implementation of the State's Pay Revision, there was substantial increase in revenue expenditure by 2009-10, which had a bearing on the fiscal position of the State.

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. This chapter also provides details on non-submission of annual accounts and also delay in placement of Separate Audit Reports in the Legislature by the Autonomous Bodies. Besides, the cases of misappropriation and losses that indicate inadequacy of controls in the Government departments are also detailed in this chapter.

The fiscal position of the State viewed in terms of key fiscal parameters – revenue deficit, fiscal deficit, primary deficit etc. indicated that except during 2009-10 the State had maintained revenue, fiscal and primary surplus during the last four years. During the current year, the State had witnessed huge deficit in all the three parameters but managed to minimize holding of large cash surplus.

Revenue Receipts

Revenue receipts grew by 10 *per cent* over the previous year. The increase was mainly contributed by tax revenue 46 *per cent*, non-tax revenue 27 *per cent*, State's share of Union Taxes and Duties eight *per cent* and Grants-in-aid from Government of India (GOI) 19 *per cent*. ***The revenue receipts at ₹19,884 crore is, however, higher by ₹575 crore than the assessment made by the State Government in its Fiscal Correction Path (FCP) (₹19,309 crore), but lower by ₹3,180 crore than the assessment made in FYFP (₹23,064 crore).***

(Para-1.1)

The State Government should mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. It should also make efforts to collect revenue arrears. Efforts should also be made to increase tax compliance, reduce tax administration costs, etc. so that deficits are contained. Ensuring that the Government of India releases all grants due to the State by timely action on all conditionalities that are pre-requisite to the release will also increase the total receipts of the State. There is an urgent need to improve collection of tax revenue so that recourse to borrowed funds can be reduced.

Revenue Expenditure

The overall revenue expenditure of the State increased by 101.52 *per cent* from ₹10,536 crore in 2005-06 to ₹21,232 crore in 2009-10 at an annual average rate of 20.30 *per cent* and increased from ₹14,243 crore in 2008-09 to ₹21,232 crore in 2009-10.

(Para-1.5.3)

During 2009-10, though the development expenditure (₹14,953 crore) increased by ₹3,801 crore over the previous year, yet it was much below the Budget Estimate (₹18,847 crore) for 2009-10. The relative share of the revenue developmental expenditure was 51 *per cent* of the total expenditure while this share in respect of capital development expenditure was only 11 *per cent*. The expenditure pattern of the State, reveals that there is an increasing pressure on revenue expenditure The expenditure on salaries and wages increased by 40 *per cent* (from ₹5,842 crore in 2008-09 to ₹8,193 crore in 2009-10) against the TFC norms of growth rate of six *per cent*. According to recommendation of the TFC, the State should follow a recruitment and wages policy, in a manner such that the total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35 *per cent*. This norm was not followed in the State and the salary and wages expenditure stood at 46.47 *per cent* during 2009-10.

(Paras-1.6.2 and 1.5.4)

Though expenditure incurred under Capital Heads had been increasing over the years, yet the State needs to ensure that outcomes are achieved. A monitoring mechanism should be put in place to ensure effective use of budgetary funds and value for money is channelised in its entirety to the intended beneficiaries. The State should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to cut down interest and principal payments.

Fiscal Correction Path

During 2009-10, there was a sudden fall in all the three major fiscal indicators *viz*., revenue, fiscal and primary deficits from surpluses over the previous year mainly due to increase in expenditure both in revenue and capital heads. The State could not achieve the fiscal deficit target of 4 *per cent* of GSDP as prescribed in the AFRBM Act, 2005 for the year 2009-10, which stood at 4.59 *per cent*.

(Para-1.10)

There is a reasonable prospect of returning back to a fiscal correction path if efforts are made to increase tax compliance, collection of revenue arrears and prune unproductive expenditure so that deficits are contained.

Fiscal Priority

The State had attached low fiscal priority towards development expenditure, as the Development Expenditure/Aggregate Expenditure ratio was much lower than the NE State’s average in 2005-06 and 2009-2010.

(Para-1.6.1)

The decrease in the ratio of developmental expenditure to aggregate expenditure indicates that State attaches low fiscal priority towards its development. From the point of view of improving developmental expenditure, it is pertinent for Government of Assam to take appropriate expenditure measures and lay emphasis on provision of expending more under social and economic sectors.

Fiscal liabilities

The overall fiscal liabilities of the State increased at an annual average rate of 9.83 *per cent* during 2005-10. The fiscal liabilities of the State Government however, increased by ₹3,231 crore (12.80 *per cent*) from ₹25,234 crore in 2008-09 to ₹28,465 crore in 2009-10. The committed liabilities for the State projected by the TFC was ₹5,610 crore of non-plan revenue expenditure for the year 2009-10. Compared to this, there was an increase of 111 *per cent* in the actual expenditure during 2009-10. During 2009-10, interest receipts, as percentage of outstanding loans and advances was 0.41 whereas interest paid by the Government as percentage to outstanding liabilities was 6.83.

(Paras-1.8.2 and 1.7.3)

Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the 13th Finance Commission to bring Fiscal Liabilities-GSDP ratio to around 25 per cent could be achieved in next five years.

Investment and Returns

The average return on Assam Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives and Government Companies varied between 0.70 to 1.21 *per cent* in the past five years whereas its average interest outgo was in the range of 6.76 to 8.18 *per cent*.

(Para-1.7.2)

A performance-based system of accountability should be put in place in the Government Companies/Statutory Corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the Companies/Corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non revenue generating investments through a clear and transparent guideline.

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. During 2009-10 fiscal deficit-GSDP ratio deteriorated sharply compared to previous year indicating increase in debt-GSDP ratio. The sum of quantum spread and primary deficit at ₹(-)1,014 crore during 2009-10 against ₹3,989 crore in 2008-09 is an alarming situation to the State Government. The State has also negative resource gap during 2009-10 indicating the beginning of risk of non-sustainability of debt.

(Para-1.9)

The State should make efforts to return to primary and revenue surplus as was the case in the past years. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year will ensure that market borrowings are sourced optimally. A clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Financial management and budgetary control: The estimates of receipts and expenditure under Consolidated Fund, Contingency Fund and Public Account are prepared without adequate due diligence in observing prescribed budgetary regulations.

Non-maintenance of budget calendar, poor verification of departmental figures etc., indicates absence of financial control. Besides, failure to exercise control mechanism there were huge excess expenditure over budget provisions, non-utilisation of budget provisions, persistent savings and expenditure without provisions etc. were noticed.

(Para-2.2)

During 2009-10, expenditure of ₹24,968.76 crore was incurred against the total grants and appropriations of ₹37,613.29 crore, resulting in a savings of ₹12,644.53 crore. The overall savings was the net result of saving of ₹12,667.75 crore offset by excess of ₹23.22 crore. The excess requires regularization under Article 205 of the Constitution of India. At the close of the year 2009-10, there were 52 grants/ appropriations in which savings of ₹8,743.07 crore (69.14 *per cent* of the total savings) occurred but no surrenders were made by the concerned departments.

(Paras-2.4 and 2.5.11)

Out of the total provisions amounting to ₹163.35 crore in six schemes, ₹41.03 crore (25 *per cent*) were surrendered (sum exceeding ₹25 lakh in each case).

(Para-2.5.9)

In seven cases, as against savings of ₹158.79 crore, the amount surrendered was ₹180.50 crore (₹50 lakh or more in each case) resulting in excess surrender of ₹21.71 crore. Injudicious re-appropriation proved excessive or insufficient and resulted in saving/excess of over ₹10 lakh in 14 sub-heads. Rush of expenditure were noticed in respect of 32 major heads, where expenditure exceeding ₹10 crore and also more than 50 *per cent* of the total expenditure for the year was incurred in March 2010.

(Paras-2.5.8, 2.5.10 and 2.5.12)

Budgetary Controls should be strengthened in all the Government departments where savings/excesses persisted for last three years. Issuance of Re-appropriation/ surrender orders at the end of the year should be avoided. A close and rigorous

monitoring mechanism should be put in place by the DDOs to adjust the Abstract Contingent Bills within thirty days from the date of drawal of the amount.

Reconciliation and verification of figures is an important tool. Failure to exercise/adhere to the manualised provisions and executive instructions not only facilitates misclassifications/misbookings of the figures but also frustrates the very objectives of budgetary process.

Government should put in place an effective mechanism to ensure financial discipline and prepare realistic budget.

Finance Department should ensure strict compliance of codal provisions as well as its own instructions to honour Public Finance Accountability norms.

Savings are to be worked out before hand and surrendered before close of the financial year.

Excess expenditure should be brought to the notice of the Finance department in time for its timely regularization.

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.

(Paras-3.1 to 3.4)

Government departments should take urgent action for submission of outstanding accounts of the autonomous bodies. Departmental enquiries in misappropriation 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.