

EXECUTIVE SUMMARY

Background

This Report on the Finances of the Government of Nagaland is being presented to the State Legislature, along with the Finance and Appropriation Accounts, with a view to assess objectively the financial performance of the State during the year 2008-09. 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 schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare the normative assessment made by the Finance Commission (TFC) and 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 2008-09. 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 has 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 centre-stage once again, a standalone Report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, Comptroller & Auditor General of India has decided to bring out a separate volume titled "Report on State Finances."

The Report

Based on the audited accounts of the Government of Nagaland 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 1 is based on the audit of Finance Accounts and makes an assessment of the Government of Nagaland'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 through off-budget route.

Chapter 2 is based on audit of Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

Chapter 3 is an inventory of Nagaland Government's compliance with various reporting requirements and financial rules. This chapter also provides details on non-submission of annual accounts and also delays 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 report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Greater priority to capital expenditure: There is an urgent need to prioritise spending under capital heads and contain revenue expenditure. An internal control mechanism should be put in place to watch if the Government money is expended prudently so that value for money is channelized in its entirety to the beneficiaries.

Enhancing fiscal priority: From the point of view of improving developmental expenditure, it is important for the Government of Nagaland to take appropriate expenditure measures and lay emphasis on provision of expending more under social and economic sectors. The increase in the ratio of developmental expenditure to aggregate expenditure indicates fiscal priority of the State which in turn improves its fiscal health.

Review of Government investments: 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 if high cost borrowings are worth to be channelised there.

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 but are funded directly by the GOI. 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 Accountant General (Accounts & Entitlement).

Financial management and budgetary control: This chapter deals with the position of actual expenditure against 80 Grants/Appropriations during 2008-09. It was noticed that there was an overall saving of Rs.964.02 crore and excess expenditure of Rs.43.52 crore during 2008-09. This excess expenditure of 2008-09 compounded with an excess expenditure amount of Rs.1968.06 crore pertaining to 1996-2009, require regularisation by the Legislature under Article 205 of the Constitution of India. A rush of expenditure was also observed towards the end of the year. In respect of 35 Grants/Appropriations, more than 50 *per cent* of the total expenditure during the year was incurred either during the last quarter or during the last month of the financial year, despite clear directions to the contrary. The Abstract Contingent Bills had not been adjusted for long periods of time which is fraught with the risk of misappropriation and therefore needs to be monitored closely.

Financial Reporting: This chapter provides an account of the Nagaland Government's compliance with various reporting requirements and financial rules. There were deficiencies in not furnishing utilization certificates in time against grants/loans received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of Accounts in time. There were also delay in placement of Separate Audit Reports to Legislature and huge arrears in finalization of accounts by the Autonomous Bodies/Authorities. Besides, cases of misappropriation and losses indicated inadequacy of controls in the departments.

Departmental inquiries in all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the Organizations should be strengthened to prevent such cases.