

# EXECUTIVE SUMMARY



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### Background

This Report on the Finances of the Government of Sikkim 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 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 normative assessment made by the Twelfth Finance Commission (TFC). A comparison has been made to see whether the State has given adequate fiscal priority to the developmental, social sector and capital expenditure as compared to other States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

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, Comptroller and Auditor General of India had decided to bring out a separate volume titled "Report on State Finances". The Report is the second in this endeavor.

### The Report

Based on the audited accounts of the Government of Sikkim 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 1** is based on the audit of Finance Accounts and makes an assessment of the Government of Sikkim's fiscal position as on 31 March 2010. It provides an insight into trends in committed expenditure, borrowing pattern and a brief account of Central funds transferred directly to the State implementing agencies through off-budget route. This chapter also captures matters relating to State Regulatory Bodies, framing of Rules and Regulations in pursuance of Central Acts, Major Policy initiatives by the State Government and Public Private Partnership ventures in the State.

**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 Sikkim 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 report also has an appendage of additional data collated from several sources in support of the findings.

### **Audit findings and recommendations**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit etc. indicated that the State had maintained revenue surplus during the last five year period. However, while the State continued with fiscal deficit in all the five years with fluctuating trend, the primary deficit also continued to prevail except in the year 2006-07 wherein surplus was recorded. During the current year, there was a significant improvement in all the key fiscal parameters over the previous year.

#### **Revenue Receipts**

The revenue receipts have shown a progressive increase over the period 2005-10 with a growth of 33.40 per cent over the previous year. While 28.62 per cent of the revenue receipts during 2009-10 have come from the State's own resources comprising taxes and non-taxes as compared to 24 per cent in 2005-06, the share of Central transfers comprising State's share in Central taxes and duties and grants-in-aid from GOI had marginally declined from 76 per cent in 2005-06 to 71.38 per cent in 2009-10. *The tax revenue as well as the non-tax revenue receipts exceeded both the normative assessments made by TFC and budget provision.*

#### **Revenue and Capital expenditure**

The overall revenue expenditure of the State increased by 32.49 per cent from ₹ 1380.55 crore in 2008-09 to ₹ 1,829.02 crore in 2009-10. While revenue expenditure constituting 72.74 per cent of the total expenditure grew by ₹ 448.47 crore over the previous year, the expenditure incurred under capital head which constituted 25.79 per cent of the total expenditure grew by ₹ 36.75 crore over the previous year.

Out of the total capital expenditure of ₹ 648.53 crore, ₹ 285.00 crore were blocked in 79 incomplete works which were due to be completed within 31 March 2010.

Developmental expenditure of ₹ 932.53 crore in 2005-06 increased to ₹ 1,768.05 crore in 2009-10. However, its share in aggregate expenditure decreased from 75.38 per cent in 2005-06 to 70.31 per cent in 2009-10. The ratio of development expenditure as a proportion to aggregate expenditure is higher than the average of NE States which indicates that the State had given higher priority to this category of expenditure as

compared to other States. However, *non-plan developmental revenue expenditure (SS + ES) of ₹ 635.83 crore was higher than the TFC Projection of ₹ 325.40 crore for the State during 2009-10.* The ratio of Social Sector expenditure which includes expenditure on Education and Health as a proportion of aggregate expenditure is lower than the average of NE States'.

According to recommendation of the TFC, the State should follow a recruitment and wages policy in such a manner that the total salary bills relative to revenue expenditure net of interest payments and pension does not exceed 35 *per cent*. The expenditure on salaries was 53.59 *per cent* of the revenue expenditure, net of interest payments and pension, as against TFC norm of 35 *per cent* and constituted 123.69 *per cent* of its own tax and non-tax revenue during 2008-09. Although the interest payment (₹ 154.43 crore) during 2009-10 exceeded the normative projections of TFC (₹ 130.07 crore), in absolute terms, the same at 6.58 *per cent* remained well within the limit of 15 *per cent* of revenue receipt recommended by the TFC.

***Though expenditure incurred under Capital Heads had been increasing over the years, the State needs to ensure effective implementation of the schemes and devise an effective monitoring mechanism to avoid the incidences of time and cost overrun and ensure that 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 payments. The State should enhance spending and accord priority to the Social Sector.***

***Funds transferred directly from the Government of India (GOI) to the State implementing agencies***

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).***

#### ***Government investment***

Investment of Government money in Government Companies and Statutory Corporations are increasing year after year. However, while the return on the investment was 0.52 *per cent*, the Government paid an average interest rate of 8.40 *per cent* on its borrowings during the year.

***The Government should ensure better value for money in investment by identifying the Companies/Corporations which are endowed with low financial but high socio-***

***economic returns and justify if high cost borrowings are worth being channelised there. Initiative may be taken to revive, close down or sell the huge loss making Corporations/Companies.***

#### ***Cost of collection***

The percentage of expenditure on collection during 2009-10 as compared to the corresponding All India average percentage for 2008-09 was high in the cases of Sales Tax, State Excise and Taxes on Vehicles.

***Government should take suitable steps for minimising the cost of collection to make available more funds for development purposes.***

#### ***State Regulatory bodies***

State has not constituted State Electricity Regulatory Commission as stipulated in Electricity Act 2003. Though the State Government constituted the State Transport Authority as per the provision of sub-section 1 of section 68 of Motor Vehicle Act 1988, the Authority neither maintained any records nor are any reports being prepared. The State Level Education Regulatory Commission had not yet been constituted despite the announcement by the Chief Minister during the presentation of Budget for the year 2007-08 to constitute the same.

#### ***Public Private Partnership (PPP)***

Even though the Sikkim Government had not framed any PPP policy for the State, the Government opened the power sector to private developers with the objective of increasing its revenue by exporting electricity to other States. The State Government commenced award of hydro power projects to Independent Power Producers (IPPs) without working out any effective modality and finalising any plan or policy. Projects were awarded at throwaway charges which compared very poorly with the charges imposed by all other hydro power States in the country in respect of royalty revenue, upfront premium, penalty for delay, local area development, etc. Environmental issues were also neglected and delayed.

***State PPP policy particularly in respect of hydro power projects may be finalised and all projects awarded after following transparent bidding procedures.***

***State may consider levying appropriate application fee, upfront premium and royalty keeping in view the prevalent best practices.***

***Suitable conditions against non-performance/abandonment of the projects and negligence in proper maintenance of the assets may be imposed on the IPPs forthwith.***

***Strict vigil over environmental concerns may be ensured.***

**Financial management and budgetary control:** This Chapter deals with the position

of actual expenditure against 44 Grants/Appropriations during 2009-10. It was observed that there is an overall savings of ₹ 504.18 crore and excess expenditure of ₹ 5.10 crore during 2009-10. This excess expenditure of 2009-10 compounded with an excess expenditure of ₹ 5.00 crore pertaining to 2006-09, requires 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 27 Major Heads, more than 50 *per cent* of the total expenditure during the year was incurred in 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 was fraught with the risk of misappropriation and therefore needs to be monitored closely.

***Budgetary controls should be strengthened in all the Government departments, particularly in the departments where savings/excesses persisted for last five 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 sixty days from the date of drawal of the amount.***

**Financial Reporting:** This Chapter discloses deficiencies in not furnishing utilisation 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 was delay in placement of Separate Audit Report to Legislature and huge arrears in finalisation of accounts by the Autonomous Bodies/Authorities. Besides, cases of misappropriation and losses indicated inadequacy of controls in the departments. An effective mechanism needs to be put in place to ensure timely placement of reports, finalisation of accounts and speedy settlement of cases relating to misappropriation and losses

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