

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 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 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 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 North Eastern States 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 was 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." This is the second Report in this endeavour.

The Report

Based on the audited accounts of the Government of Nagaland 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 Nagaland'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.

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 delays in placement of Separate Audit Reports in the Legislature by the Autonomous Bodies. Besides, the cases of misappropriation and loss that indicate inadequacy of controls in the Government departments are also detailed in this chapter.

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

Audit findings and recommendations

Revenue Receipts: During 2009-10, 92 *per cent* of the total revenue came from the Government of India as Central transfers (12 *per cent*) and grants-in-aid (80 *per cent*). The State could not achieve the total revenue collection target fixed by the TFC during 2009-10. Besides, the own tax revenue of the State fell short of the TFC recommendations in all the years from 2005-10.

The State Government needs to boost its own tax revenue at least to the level recommended by the TFC in order to reduce dependency on funds from Government of India.

Revenue Expenditure: During 2009-10, non-plan revenue expenditure was ₹ 756.18 crore (39.64 *per cent*) more than the TFC recommendations. The expenditure on salaries and wages increased by 15.48 *per cent* against the TFC norms of growth rate of six *per cent*. The expenditure on salary was 55.26 *per cent* of revenue expenditure, net of interest payment and pension, which was within the ceiling of 61 *per cent* targeted in NFRBM Act, but was much higher than the norm of 35 *per cent* recommended by the TFC.

The ratio of developmental expenditure as a proportion of aggregate expenditure was lower than NE State's average which indicates that the State has not given priority to this category of expenditure as compared to other NE States. The State Government's social sector expenditure as a percentage of aggregate expenditure was much less than the NE States average during the years 2005-06 and 2009-10. The expenditure on education in Nagaland (as a proportion of aggregate) was also lower than that of the average in other NE States. In the case of health, Nagaland accorded a much higher priority in 2005-06 than other NE States. In the current year however, the priority given to health was lower in the case of Nagaland as compared to other NE States.

The non-plan revenue expenditure on salary needs to be contained and developmental expenditure needs to be given more priority especially in the areas of education, health etc.

Debt Sustainability: The State should have adequate incremental non-debt receipts to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could also be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. During 2009-10, the non-debt receipts were not sufficient and therefore, the State recorded a negative resource gap of ₹ 182 crore.

The State needs to strive to bring the resource gap to positive by enhancing incremental non-debt revenue and reduce incremental expenditure in the coming years.

Fiscal Correction Path: During 2009-10 the State's revenue surplus had declined while the fiscal deficit and the primary deficit had increased relative to the previous

year. Overall fiscal liabilities of the State increased at a compound annual growth rate of 14.08 *per cent* during 2005-10. The fiscal liabilities increased by ₹ 831 crore (18.18 *per cent*) from ₹ 4571 crore in 2008-09 to ₹ 5402 crore in 2009-10. The committed liabilities for the State projected by the TFC was ₹ 1208 crore of non-plan revenue expenditure for the year 2009-10. Compared to this, there was an increase of ₹ 876 crore (72.52 *per cent*) in the actual expenditure during 2009-10.

The interest received on outstanding loans and advances by the State Government decreased from 4.22 *per cent* in 2008-09 to 1.63 *per cent* in 2009-10, which was much less than the interest paid (11.50 *per cent*) by the Government on its own borrowings.

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.

Review of Government investments: The Government had invested ₹ 192.09 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2010. The average return on this investment was NIL during the last five years while the Government paid an average interest rate of 11.50 *per cent* on its borrowing during 2006-10.

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 to be channelized in those Companies/Corporations.

Incomplete Projects: A total of 111 projects were incomplete as on 31 March 2010 in which ₹ 645.38 crore were blocked. There has already been a cost overrun of ₹ 24.89 crore in these projects. One project costing ₹ 32 crore has been fore-closed and another costing ₹ 13.42 crore has been kept on hold. Delay in completion of works invites the risk of escalation in the cost of the works. The actual cost overrun would be available on closure of the claims of the construction after completion of the projects.

The works needs to be completed in time to contain time and cost overrun especially on high cost works. Besides, projects should be selected after proper survey and investigation in order to avoid force-closure of projects leading to unfruitful outflow of Government funds.

Oversight of funds transferred directly from the GOI to the State implementing agencies: During 2009-10, an approximate amount of ₹ 957.33 crore was directly transferred by 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: There was an overall saving of ₹ 1023.23 crore after adjusting the excess expenditure of ₹ 62.17 crore during 2009-10. This excess expenditure of 2009-10 compounded with an excess expenditure of ₹ 2011.58 crore pertaining to 1996-2010, require regularisation by the Legislature under Article 205 of the Constitution of India. A rush of expenditure was observed towards the end of the year. In respect of 34 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 amounting to ₹ 17.18 crore had not been adjusted for long periods of time which is fraught with the risk of mis-appropriation and therefore needs to be monitored closely.

Financial Reporting: 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 huge arrears in finalization of accounts by the Autonomous Bodies/Authorities and also by the Departmental Commercial Undertakings. The delay in finalisation of accounts opens the system to risk of fraud and leakage of public money. Besides, cases of misappropriation and loss indicated inadequacy of controls in the departments.

The accounts of Autonomous Bodies/Authorities and Departmental Commercial Undertakings need to be finalized at the earliest. 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.