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 2011-12. 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 (FRBM) Act, 2005 (amended in 2011) as well as in the Budget estimates of 2011-12.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for over six years since the FRBM legislation and has published six 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 was 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 fourth in this endeavour.

Based on the audited accounts of the Government of Assam for the year ending March 2012, 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's fiscal position as on 31 March 2012. 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 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 fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit and primary deficit etc., indicated that except during 2009-10 the State had maintained revenue surplus during the last five years. The fiscal deficit of the State was also reduced during the current year compared to previous year and the State also managed to exhibit primary surplus after a gap of two years.

Revenue Receipts

Revenue receipts grew by 19 *per cent* over the previous year. The increase was contributed by tax revenue (38 *per cent)*, non-tax revenue (11 *per cent*), State's share of Union Taxes and Duties (30 *per cent)* and Grants-in-aid from Government of India (21 *per cent*). ***The revenue receipts at ₹27,455 crore is, higher by ₹1,334 crore than the assessment made in Five Year Fiscal Plan (FYFP) (₹26,121 crore)***.

(Para-1.1.1)

Revenue Expenditure

The overall revenue expenditure of the State increased by 108.16 *per cent* from ₹12,744 crore in 2007-08 to ₹26,528 crore in 2011-12 at an annual average rate of 21.63 *per cent* and increased from ₹22,952 crore in 2010-11 to ₹26,528 crore in 2011-12. The Non-Plan Revenue Expenditure constituted a dominant share of nearly 76 *per cent* in the revenue expenditure and has increased by ₹2,145 crore over the previous year. The Plan Revenue Expenditure increased by more than 28 *per cent* over the previous year whereas capital expenditure increased by 25.24 *per cent* over the previous year.

(Paras-1.5.3 and 1.5.1)

During 2011-12, though the development expenditure (₹18,655 crore) increased by ₹1,809 crore over the previous year, yet it was much below the budget estimate (₹22,764 crore) for 2011-12. The relative share of the revenue developmental expenditure was 55 *per cent* of the total expenditure while this share in respect of capital development expenditure was only eight *per cent*. The expenditure pattern of the State reveals that there is an increasing pressure on revenue expenditure. Salaries and wages alone accounted for nearly 43 *per cent* of revenue receipts of the State during the year. It increased by more than 11 *per cent* from ₹10,576 crore in 2010-11 to ₹11,793 crore in 2011-12. Although expenditure on salaries (₹11,651 crore) during 2011-12 was less by ₹2,311 crore (16.55 *per cent*) than assessed (₹13,962 crore) by the State Government in its budget, it was more by ₹2,198 crore (23.25 *per cent*) than the projection of ₹9,453 crore in FYFP. It was also more by 67 *per cent* (₹4,681 crore) than the assessment made by the FC-XIII (₹6,970 crore).

(Paras-1.6.1 and 1.5.4)

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 liabilities

The overall fiscal liabilities of the State increased at an average annual rate of 8.80 *per cent* during the period 2007-12. During the current year, the fiscal liabilities of the State Government increased by ₹1,804 crore from ₹29,693 crore in 2010-11 to ₹31,497 crore in 2011-12. Although the ratio of fiscal liabilities to GSDP has decreased from 28.55 *per cent* in 2010-11 to 27.29 *per cent* in 2011-12 but it was higher than 25 *per cent,* the norms recommended by FC-XIII.

(Para-1.8.2)

Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the FC-XIII 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 State Government's investment in Statutory Corporations, Rural Banks, Joint Stock Companies, Co-operatives and Government Companies varied between 0.62 to 1.21 *per cent* in the last five years whereas its average interest outgo was in the range of 6.58 to 7.14 *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 clear and transparent guidelines.

Debt sustainability

During 2011-12, fiscal deficit-GSDP ratio improved marginally compared to previous year indicating decrease in debt-GSDP ratio. The sum of quantum spread and primary deficit also improved marginally and stood at ₹1,741 crore during 2011-12 against ₹1,738 crore in 2010-11 which is a positive sign towards fiscal balances for improving the debt sustainability position of the State.

(Para-1.9)

The State Government may explore the possibility to mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. 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 and non-tax revenue so that recourse to borrowed funds can be reduced. A clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.

Budgetary control and Financial management

The estimates of receipts and expenditure under Consolidated Fund and Public Account were prepared without adequate diligence in observing prescribed budgetary regulations.

Non-maintenance of budget calendar, non-reconciliation of departmental figures etc., indicate inadequate financial control. Besides, failure to exercise control mechanism resulted in non-utilisation of budget provisions, huge excess expenditure over budgetary allocation, expenditure without provisions and persistent savings etc.

(Paras-2.2.9, 2.2.13, 2.2.16, 2.2.17, 2.2.18 and 2.2.19)

The excess of expenditure over grant/appropriation for ₹32.14 crore for the years 2009-10 (₹27.87 crore) and 2010-11 (₹4.27 crore) is yet to be regularized by the Legislature.

(Para-2.2.17)

Out of 44 Controlling Officers (COs), only 31 COs reconciled the departmental expenditure figures during the year 2010-11 and 2011-12 with those booked by the PAG (A&E), Assam within the stipulated time frame.

(Para-2.2.13)

- ***Government should put in place an effective mechanism to ensure financial discipline and to prepare realistic budget estimates.***
- ***Finance Department should ensure strict compliance of codal provisions as well as its own instructions to honour Public Finance Accountability norms.***
- ***Excess expenditure should be brought to the notice of the Finance Department for its timely regularization.***

During 2011-12, expenditure of ₹30,269.15 crore was incurred against the total grants and appropriations of ₹39,482.69 crore, resulting in a saving of ₹9,213.54 crore. The overall savings was the net result of saving of ₹10,128.68 crore offset by excess of ₹915.14 crore. The excess requires regularization under Article 205 of the Constitution of India. At the close of the year 2011-12, there were 48 grants/ appropriations in which savings of ₹5,657.87 crore (61.41 *per cent* of the overall savings) occurred but no surrenders were made by the concerned departments.

(Paras-2.3.1, 2.3.7 and 2.3.12)

Out of the total provisions amounting to ₹192.93 crore in 13 schemes, ₹36.44 crore (19 *per cent*) was surrendered (sum exceeding ₹25 lakh in each case).

(Para-2.3.10)

In two cases, as against savings of ₹66.06 crore, the amount surrendered was ₹68.10 crore (₹50 lakh or more in each case) resulting in excess surrender of ₹2.04 crore. Injudicious re-appropriation proved excessive or unnecessary and resulted in saving/excess of over ₹10 lakh in 19 sub-heads. Rush of expenditure was noticed in respect of 27 Major heads, where expenditure exceeding ₹10 crore and also more than 50 *per cent* of the total expenditure for the year was incurred in the month of March 2012.

(Paras-2.3.11, 2.3.9 and 2.3.13)

Funds amounting to ₹666.07 crore drawn at the end of the year were deposited into the head of account '8443-Civil Deposit' to avoid lapse of budget grant, which indicates lack of legislative control. Besides, funds amounting to ₹16.83 crore meant for developmental works were parked in Personal Deposit Accounts without undertaking the work for which these were sanctioned and released.

(Paras-2.3.5 and 2.3.16)

Delayed submission of budget estimates, unrealistic budget estimation, non-surrender of anticipated savings etc., indicate that prescribed budgetary regulations were not observed diligently leading to absence of financial control. Besides, failure to exercise control mechanism to watch over the progress of expenditure resulted in various shortcomings, like unutilized budget provisions and persistent savings etc.

(Paras-2.4.1, 2.4.4, 2.4.7 and 2.4.8)

- ***Parking of funds in the Personal Deposit Accounts to avoid lapse of budget, is fraught with the risk of misuse of funds and therefore, needs to be avoided.***

- ***Expenditure should be planned in advance and incurred uniformly throughout the year to avoid rush of expenditure at the end of the financial year.***
- ***Reconciliation and verification of figures is an important tool. Failure to exercise/adhere to the manualised provisions and executive instructions not only facilitates misclassifications of the expenditure but also leads to defeat the very objectives of budgetary process. Thus, steps are needed to be taken up to ensure reconciliation of accounts by the departments regularly.***
- ***Savings are to be worked out before hand and surrendered before the close of the financial year for its effective utilisation in other areas/schemes requiring funds.***
- ***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.***
- ***Finance Department should ensure strict compliance of codal provisions as well as its own instructions to honour Public Finance Accountability norms.***

Financial reporting

State Government's compliance with various rules, procedures and directives was unsatisfactory as was 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 and annual accounts in respect of a large number of Government bodies/authorities due up to 2011-12 had not been received by the Principal Accountant General (Audit), Assam. There were instances of losses and misappropriations also.

(Paras-3.1 to 3.4)

Departments should submit UCs in respect of the grants released for specific purposes to the grantee institutions in time. Government departments should take urgent action so that the Government/Autonomous bodies submit the outstanding accounts expeditiously. 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.