EXECUTIVE SUMMARY

This Report on the Finances of the Government of Mizoram 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 Act, 2006 as well as in the Budget Estimates of 2011-12 and projections made by Thirteenth Finance Commission.

The Report

Based on the audited accounts of the Government of Mizoram 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 Mizoram 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.

Chapter-II 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-III is an inventory of Mizoram Government's compliance with various reporting requirements and financial rules.

The report also has appendices of additional data collated from several sources in support of the findings and at the end gives a glossary of selected terms related to State economy, used in this report.

Audit findings

Revenue Receipts

Revenue receipts increased to ₹ 3,824.90 crore in 2011-12 from ₹ 2,855.37 crore in 2010-11 (33.95 *per cent*); mainly due to increase in Grants-in-Aid (₹ 523.87 crore) and Central share of Taxes (₹ 375.72 crore). The revenue receipt (₹ 3,824.90 crore) was also higher by ₹ 76.60 crore (2.04 *per cent*) than the assessment made by the State Government in it Fiscal Correction Path (FCP) (₹ 3,748.30 crore).

Revenue Expenditure and Capital Expenditure

Revenue Expenditure increased by ₹ 441.09 crore (13.55 *per cent*) while **Capital Expenditure** decreased by ₹ 14.44 crore (2.35 *per cent*) over the previous year. Revenue expenditure was higher by ₹ 271.07 crore (7.91 *per cent*) than the assessment made by the State Government in its FCP (₹ 3,426.26 crore). Also, Capital expenditure was higher by ₹ 103.32 crore (20.79 *per cent*) than the projection made by the State Government in its FCP (₹ 496.95 crore).

The total expenditure of the State increased progressively from ₹ 2,458.75 crore in 2007-08 to ₹ 4,331.12 crore in 2011-12 at an annual average rate of 14.72 *per cent* and increased by 11.02 *per cent* from ₹ 3,900.82 crore in 2010-11 to ₹ 4,331.12 crore in 2011-12. Of the total expenditure during 2011-12, the revenue expenditure (₹ 3,697.33 crore) constituted 85.37 *per cent* while capital expenditure (₹ 600.27 crore) constituted 13.85 *per cent* and loans and advances (₹ 33.52 crore) formed 0.77 *per cent*.

The breakup of total expenditure in terms of plan and non-plan expenditure during 2011-12 reveals that while the share of plan expenditure of ₹ 1,884.17 crore constituted 43.50 *per cent* of the total expenditure, the remaining 56.50 *per cent* (₹ 2,446.95 crore) was non-plan expenditure. Moreover, out of the increase of ₹ 430.30 crore in total expenditure, plan expenditure shared 34.52 *per cent* (₹ 148.55 crore) while non-plan expenditure contributed 65.48 *per cent* (₹ 281.75 crore) in 2011-12.

Funds directly transferred to State Implementing Agencies

Funds transferred directly from the Union Government to the State Implementing Agencies run the risk of poor oversight and therefore, unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. It also inhibits the Fiscal Responsibility and Budget Management (FRBM) requirement of transparency in fiscal operations and thus bypasses accountability. During the current year GoI transferred ₹ 668.43 crore (approximate) directly to State Implementing Agencies for implementation of various schemes/programmes.

Fiscal liabilities

The overall fiscal liabilities of the State increased at an average annual rate of 6.93 *per cent* during the period 2007-12. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 51.59 crore (1.15 *per* cent) from ₹ 4,496.86 crore in 2010-11 to ₹ 4,548.45 crore in 2011-12. The increase in fiscal liabilities was mainly due to increase in the Public Account liabilities by ₹ 82.60 crore and Loans and Advances by ₹ 4.25 crore, offset by a decrease in Internal Debt by ₹ 35.26 crore. ***The ratio of fiscal liabilities to GSDP has decreased from 74.23 per cent in 2010-11 to 65.06 per cent in 2011-12. These fiscal liabilities stood at nearly 1.19 times the revenue receipts and 13.10 times of the State's own resources at the end of 2011-12.*** As per Thirteenth Finance Commission recommendations the State Government should bring the Fiscal Liabilities-GSDP ratio to around 25 *per cent* by 2014-15.

Investment and Returns

As of 31 March 2012, Government had invested ₹ 19.77 crore in Government Companies and Co-operatives, out of which an amount of ₹ 3.28 crore was invested in Government Companies and ₹ 16.49 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.50 crore in Public Sector and other Undertakings of Government Companies. No dividend was received during 2011-12. ***The average return on this investment was Nil in the last five years while the Government paid an average interest rate ranging from 2.60 per cent to 7.02 per cent on its borrowings during 2007-12.***

Debt sustainability

During the current year, the sum of quantum spread and primary deficit turned positive indicating that the debt-GSDP ratio is stable and eventually the ratio would fall. The sum of quantum spread and primary deficit at ₹ 216.27 crore during 2011-12 against ₹ (-) 725.24 crore in 2010-11 is a positive sign towards fiscal balances in the forthcoming years.

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. Negative resource gap indicates incremental non-debt receipts are not sufficient to cover the incremental interest liabilities and incremental primary expenditure. Narrowing of the resource gap from ₹ (-) 707.86 crore in 2010-11 to ₹ (+) 541.06 crore during 2011-12 indicates improving capacity of the State to sustain the debt in the medium to long run.

Fiscal Imbalances

Despite increase of ₹ 430.30 crore in total expenditure in 2011-12 over the previous year, both fiscal deficit and primary deficit were restrained as a result of improvement of revenue receipts by ₹ 969.53 crore. While fiscal deficit decreased by ₹ 541.06 crore, primary deficit had decreased by ₹ 710.63 crore over the previous year.

Financial Management and Budgetary Control

The estimates of receipts and expenditure under Consolidated Fund, Contingency Fund and Public Account were 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 huge excess expenditure over budget provisions, non-utilisation of budget provisions and persistent savings *etc.* were noticed.

During 2011-12, an expenditure of ₹ 4,676.96 crore was incurred against the total grants and appropriations of ₹ 5,150.67 crore, resulting in savings of ₹ 473.71 crore. The overall savings of ₹ 473.71 crore were the net result of savings of ₹ 476.75 crore which were offset by excess of ₹ 3.04 crore. The excess requires regularisation under Article 205 of the Constitution of India. At the close of the year 2011-12, there were five grants/appropriations in which savings of ₹ 638.30 crore (1.34 *per cent* of the total savings) occurred but no surrenders were made by the concerned departments.

Out of total provisions amounting to ₹ 218.85 crore in 31 Schemes, ₹ 196.59 crore were surrendered which included 100 *per cent* surrender in 13 Schemes amounting to ₹ 97.25 crore. In 19 cases, as against savings of ₹ 194.11 crore, an amount of ₹ 264.94 crore was surrendered resulting in excess surrender of ₹ 70.84 crore. Injudicious re-appropriation proved excessive or insufficient and resulted in savings/excess of over ₹ 10 lakh and above in 56 sub-heads.

Financial Reporting : At the end of March 2012, out of the total amount of ₹ 2,829.71 crore drawn, an amount of ₹ 1,603.16 crore remained outstanding for want of Utilisation Certificates. The annual accounts of Mizoram Khadi Village Industries Board (MKVIB) for the year 2010-11, due for submission by June 2011, had not been furnished (March 2012). In the absence of the annual accounts, proper account/utilisation of the grants and loans disbursed to the above mentioned Autonomous Bodies remained unverified. Reasons for non-preparation/ submission of the accounts were, however, not intimated to Audit (March 2012). Inspite of repeated comments about the arrears in preparation of accounts of two Commercial Undertakings by the Comptroller and Auditor General of India in previous State reports, no improvement has been reported by the undertakings. In the absence of timely finalisation of accounts, the investment of the Government remained outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures, if any, needed for ensuring accountability could not be taken in time.

Recommendations

Revenue Receipts : *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. The State Government should ensure that the Government of India releases all grants due to the State by taking timely action on all conditionalities that are pre-requisite to the release. There is an urgent need to improve collection of tax and non-tax revenues so that dependence on borrowed funds could be reduced.*

Prioritisation of Expenditure : *The Government should also focus on expenditure management to bring about qualitative improvement in the public spending. The State Government should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need-based borrowings to curb interest and principal payments. In view of the improvement achieved in revenue surplus and reduction of fiscal deficit, the State Government should put in place more stringent fiscal reforms measures to maintain a sustainable space to provide scope for fiscal stability. As such there is an urgent need to apply due prudence in expenditure pattern so that the resource gap remains within manageable controls of the fiscal capability of the State.*

The increasing revenue expenditure should be curtailed as it poses a threat to the State Government's capability to maintain revenue surplus and to build up the accumulated revenue surplus for financing the capital investment. In order to meet the yearly increments of revenue expenditure, the Government has to generate its own resources.

Debt Sustainability : *Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the Thirteenth Finance Commission to bring Fiscal Liabilities-GSDP ratio to around 25 per cent could be achieved by 2014-15. 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.*

The State should make efforts to return to Primary surplus to widen the scope of fiscal manoeuvre towards more productive and capital creation expenditure.

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 the use of high cost borrowed funds for non-revenue generating investments through a clear and transparent guideline. The Government should have a re-look on the re-structuring of the loss-making Companies so as to curve the increasing debt burden of the Government.*

Financial Management and Budgetary control : *Government should put in place an effective mechanism to ensure financial discipline and prepare realistic budget. 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. Provision of funds through supplementary provisions should be used as an instrument to fine-tune the flow of expenditure and should be applied in a judicious manner so that budget provisions and actual expenditure are convergent to each other as nearest as possible.*

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.

Financial Reporting : *Finance Department should ensure strict compliance of codal provisions as well as its own instructions to honour Public Finance Accountability norms. The State Government should undertake regular monitoring and issue necessary instructions to the concerned Departments for furnishing timely Utilisation Certificates. The Heads of Departments should ensure that the departmental undertakings prepare proforma accounts and submit the same to Accountant General for audit. Departmental inquiries in misappropriation/loss cases should be expedited to bring the defaulters to book. Internal Control in all organisations should be strengthened to prevent such type of cases in future.*