

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 2010-11. 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 (XIII-FC) 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 2010-11. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Report

Based on the audited accounts of the Government of Nagaland for the year ending March 2011, 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 of Nagaland's fiscal position as on 31 March 2011. 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 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 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

During the current year, the revenue surplus increased and it contributed in reducing the fiscal deficit and as a result, the primary deficit turned in to a primary surplus. However, during the last five years the fiscal deficit continued with a fluctuating trend.

Revenue Receipts: During 2010-11, 92 *per cent* of the total revenue came from the Government of India as Central transfers (14 *per cent*) and grants-in-aid (78 *per cent*). The State achieved the total revenue collection target fixed by the XIII-FC during 2010-11.

Revenue Expenditure: The overall revenue expenditure of the State increased by ₹ 935.15 crore (28.76 *per cent*) over the previous year.

The revenue expenditure constituted 78.79 per cent of total expenditure while the expenditure incurred under capital head constituted 21.13 per cent.

There were 54 incomplete projects as on 31 March 2011 pertaining to five departments in which ₹ 122.16 crore were blocked.

Development expenditure of ₹ 1845.39 crore in 2006-07 increased to ₹ 3254.56 crore in 2010-11. However, its share in aggregate expenditure decreased from 62.94 per cent to 61.25 per cent during the period. The ratio of development expenditure as a proportion to aggregate expenditure had come down by 0.43 per cent in 2010-11 as compared to the year 2007-08 which indicates that the State had given lower priority to this category of expenditure during the year 2010-11 as compared to 2007-08.

The share of committed expenditure in the non-plan Revenue Expenditure was 54.97 per cent of the revenue receipts.

The State needs to accord higher priority to its developmental expenditure considering the reduction in this category of expenditure during the year 2010-11 as compared to 2007-08 and reduce its committed expenditure in the overall non-plan revenue expenditure. The State also needs to ensure timely and effective implementation of incomplete projects.

Oversight of funds transferred directly from the GOI to the State implementing agencies: During 2010-11, an approximate amount of ₹ 1033.62 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.

Government investment: The Government had invested ₹ 213.41 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2011. The average returns on this investment was nil during the last five years while the Government paid an average interest rate of 7.68 per cent on its borrowing during 2010-11.

The Government should ensure better value for money in investment by identifying the Companies/Corporation which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth being channelised there. Initiatives may be taken to revive or close down or sell out the huge loss making Corporations/Companies.

Financial management and budgetary control: There was a saving of ₹ 1370.59 crore and excess expenditure of ₹ 90.55 crore under 82 grants during 2010-11. This excess expenditure together with an excess expenditure of ₹ 384.53 crore pertaining to 2000-01, 2001-02 & 2005-06 to 2009-10 require regularisation by the Legislature under Article 205 of the Constitution of India. A rush of expenditure was noticed in 37 grants in which expenditure exceeding ₹ 10 crore or more than 50 per cent of the total expenditure was incurred in the last quarter of 2010-11 and in some cases in the month of March 2011. There were

97 AC Bills involving ₹ 21.85 crore awaiting adjustment due to non-submission of DCC Bills for long periods and therefore was fraught with the risk of misappropriation.

Budgetary controls should be strengthened in all the Government departments, particularly in the departments where savings/excess persisted for last five years. 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 the amounts are drawn.

Financial Reporting: Timely submission of utilisation certificates is a major area of concern. At the end of March 2011, 81 UCs involving an aggregate amount of ₹ 88.16 crore were pending for submission even after a lapse of one to five years from various departments. Though the accounts of the State Autonomous Bodies and Departmental

Commercial Undertakings were over due, these accounts are yet to be submitted. Non-submission of accounts in time disclosed non-compliance with the financial rules. As on 31 March 2011, 27 cases of misappropriation, defalcation etc. involving ₹ 92.46 crore and 5 theft cases involving ₹ 0.17 crore in 16 Departments were pending for finalisation. Cases of misappropriation, defalcation, and theft indicated inadequacy of controls in the departments.

The accounts of Autonomous Bodies/Authorities and Departmental Commercial Undertakings need to be finalised 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 Organisations should be strengthened to prevent such cases.