

## EXECUTIVE SUMMARY

### BACKGROUND

This Report on the Finances of the Government of Arunachal Pradesh is being brought out with a view to objectively assess 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. To give a perspective to the analysis, an effort has been made to compare achievements with the targets envisaged by the State Government in the Budget Estimates of 2011-12 and projections made by the Twelfth/ Thirteenth Finance Commissions.

Based on the audited accounts of the Government of Arunachal Pradesh 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.

### THE REPORT

**Chapter I** is based on the audit of Finance Accounts and makes an assessment of the fiscal position of the Government of Arunachal Pradesh as on 31 March 2012. It provides an insight into the trends in committed expenditure and borrowing patterns, besides a brief account of Central Funds transferred directly to State implementing agencies through the off-budget route.

**Chapter II** is based on audit of Appropriation Accounts and it gives a grant-by-grant description of appropriations and the manner in which allocated resources were managed by the service delivery Departments.

**Chapter III** is an inventory of the compliance to various reporting requirements and financial rules by the Government of Arunachal Pradesh.

### AUDIT FINDINGS AND RECOMMENDATIONS

#### ❖ *Return to Fiscal Correction*

During 2011-12, the State witnessed significant decrease in all the fiscal parameters as the revenue surplus during the current year decreased by 55.18 *per cent*, fiscal surplus and primary surplus during the previous year took a turnaround to deficit in the current year.

*The State may need to give special attention to the fall in these fiscal parameters.*

### ❖ Revenue Receipts

Revenue receipts during 2011-12 increased by 1.42 *per cent* (₹ 76.97 crore) over the previous year. Tax and Non-tax Revenue receipts exceeded the normative assessment made by the XIIIth Finance Commission by around 85 *per cent* and 66 *per cent* respectively. Central transfers, comprising of the State's share of Central taxes and Grants-in-aid from the Government of India, increased by ₹ 143.75 crore in 2011-12 and contributed to about 88 *per cent* of the Revenue receipts during the year. However, the State depends mostly on resources transferred by the Central Government. The State's own resources as a percentage of the total receipts declined from its peak (25.14 *per cent*) in 2007-08 to its lowest (12.34 *per cent*) in 2011-12. This indicates that Central transfers were the key to the increase in Revenue receipts of the State.

***The State should make efforts to increase its own resources and maintain Revenue Surplus in the ensuing years.***

### ❖ Revenue and Total Expenditure

Revenue Expenditure of the State during 2011-12 increased by ₹ 673.62 crore over the previous year and constituted 68.04 *per cent* of the total expenditure during the year. Non-Plan Revenue Expenditure (NPRE) during 2011-12, which increased by ₹ 320.78 crore as compared to the previous year, also exceeded the normative assessment made by the XIIIth Finance Commission by around 73 *per cent*. Committed expenditure, *viz.*, salaries, pensions, interest payments and subsidies, constituted about 54 *per cent* of the Revenue Expenditure during 2011-12.

***The Government should initiate suitable measures to compress Non-Plan Revenue Expenditure.***

### ❖ Capital and Development Expenditure

The State Government has given adequate thrust to Capital Expenditure in its budget for 2011-12, but failed to fulfill its commitment. Though Capital Expenditure during the current year increased over the previous year, it fell short of the Budget Estimates by about 18 *per cent*. Development Expenditure during 2011-12 was 24.30 *per cent* more than the previous year and also exceeded the assessment made in the Budget Estimates by 46.70 *per cent*. But only 37.52 *per cent* was utilised for Capital expenditure.

***The Government should consider prioritising outlays in favour of Development Capital Expenditure.***

### ❖ Debt Sustainability

Prevalence of fiscal liabilities of the State over the period 2007-12, which stood at 36.25 *per cent* of the GSDP in 2011-12, appears to be quite high especially when compared with the target prescribed by the XIIIth Finance Commission, *i.e.*, steady reduction in augmented Debt Stock of the States to less than 25 *per cent* of GDP by

2014-15. The positive resource gap during 2010-11 turned into a negative resource gap during 2011-12, indicating decreasing capacity of the State to sustain debt in the medium to long run.

***The State Government should endeavour to maintain a proper Debt-GSDP Ratio so that incremental non-debt receipts become adequate to cover the interest burden.***

#### ❖ ***Funds transferred directly by GOI to State Implementing Agencies***

Funds transferred directly to State Implementing Agencies via the off-budget route impacts fiscal responsibility and legislative requirements of transparency. In the process, there is no accountability. During the current year, the GOI transferred ₹ 1098.98 crore (approx.) directly to State Implementing Agencies for implementation of various Schemes/Programmes without routing the amount through the State Budget.

***It is imperative that a system be put in place to ensure proper accounting of these funds, and the updated information validated by both the State Government and the Accountant General.***

#### ❖ ***Financial Management and Budgetary Control***

During 2011-12, there was an overall savings of ₹ 2630.89 crore, which was the result of savings of ₹ 2674.64 crore offset by excess of ₹ 43.75 crore. The excess of ₹ 157.64 crore needed to be regularized as per Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, anticipated savings were not surrendered and reconciliation of expenditure figures was not done by Controlling Officers.

***Budgetary Controls should be strictly observed to avoid deficiencies in Financial Management.***

#### ❖ ***Financial Reporting***

Compliance to rules, procedures and directives by the State Government was unsatisfactory, as evident from the delay in furnishing Utilisation Certificates for grants given by Government Departments. Delays also figured in submission of Annual Accounts by some Autonomous Bodies. There were also instances of losses and misappropriations.

***Internal Control in all the Departments/Organisations should be strengthened to prevent the above deficiencies.***