

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 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 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 2011-12. 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 2012, 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 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 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

During the current year, the fiscal deficit increased due to the combined effect of increase in capital expenditure and decrease in revenue surplus. As a result, the primary surplus turned into primary deficit. Besides, during the last five years the fiscal deficit continued with a fluctuating trend.

Revenue Receipts: During 2011-12, 90 *per cent* of the total revenue came from the Government of India as Central transfers (14 *per cent*) and grants-in-aid (76 *per cent*). The State however, achieved the total revenue collection target fixed by the XIII-FC during 2011-12.

Revenue Expenditure: The overall revenue expenditure of the State increased by ₹ 687.59 crore (16.42 *per cent*) over the previous year. The revenue

expenditure constituted 79.56 per cent of total expenditure while the expenditure incurred under capital head constituted 20.39 per cent.

There were 138 incomplete projects as on 31 March 2012 pertaining to 18 departments. Out of 138 incomplete projects, 57 projects were due to be completed by March 2012 in which ₹ 326.31 crore were blocked. The date of completion in respect of the remaining 81 projects could not be furnished by the departments.

Development expenditure of ₹ 2246.10 crore in 2008-09 increased to ₹ 3573.45 crore in 2011-12. However, its share in aggregate expenditure decreased from 60.82 per cent to 58.33 per cent during the period. The ratio of development expenditure as a proportion to aggregate expenditure had come down by 1.68 per cent in 2011-12 as compared to the year 2008-09 which indicates that the State had given lower priority to this category of expenditure during the year 2011-12 as compared to 2008-09.

The share of committed expenditure in the non-plan Revenue Expenditure was 58.87 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 2011-12 as compared to its aggregate expenditure in 2008-09 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 2011-

12, an approximate amount of ₹ 1284.05 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 ₹ 228.01 crore in Statutory Corporations, Rural Banks, Joint Stock Companies and Co-operatives at the end of March 2012. The average returns on this investment was nil during the last five years.

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 ₹ 864.74 crore and excess expenditure of ₹ 54.95 crore under 82 grants during 2011-12. This excess expenditure together with an excess expenditure of ₹ 447.10 crore pertaining to 2000-01 and 2005-06 to 2010-11 require regularisation by the Legislature under Article 205 of the Constitution of India. A rush of expenditure was noticed in 50 grants in which expenditure exceeding ₹ 10 crore or more than 50 per cent of the total expenditure was incurred in the last

quarter of 2011-12 and in some cases in the month of March 2012. There were 118 AC Bills involving ₹ 81.24 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 2012, 75 UCs involving an aggregate amount of ₹ 73.54 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 were not submitted. Non-submission of accounts in time amounted to non-compliance with the financial rules. As on 31 March 2012, 11 cases of misappropriation, defalcation etc. involving ₹ 45.34 crore and three theft cases involving ₹ 0.12 crore in eight 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.