

# EXECUTIVE SUMMARY



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## The Report

Based on the audited accounts of the Government of Mizoram for the year ending March 2020, this Report provides an analytical review of the finances of the State Government. The Report is structured in five Chapters.

## Chapter 1-Overview of State Finances

This Chapter provides brief profile of the State and basis of the report, structure of the Government accounts, Budgetary processes, macro-fiscal analysis of key indices and fiscal position of the State including the deficit/surplus.

## Chapter 2-Finances of the State Government

This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the last five years, debt management of the State and key Public Account transactions, based on the Finance Accounts of the State.

## Chapter 3-Budgetary Management

This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

## Chapter 4-Quality of Accounts and Financial Reporting Practices

This Chapter provides an overview on the quality of accounts and compliance of the State Government in its financial reporting practices, with prescribed financial rules, procedures and directives with regard to completeness, transparency, measurement and disclosure.

## Chapter 5-Functioning of State Public Sector Enterprises

This Chapter gives an overall picture of the financial performance of State Public Sector Enterprises (SPSEs), as revealed from their accounts. It also contains the impact of revision of accounts as well as significant comments issued as a result of supplementary audit of the financial statements of the SPSEs conducted by the C&AG.

## Audit findings

### Overview

- The growth rate of GSDP of the State at current prices, during 2015-20 ranged between 12.06 *per cent* (2015-16) to 18.91 *per cent* (2019-20). During 2019-20, the GSDP at current price was ₹ 26,503 crore, up from ₹ 22,287 crore in 2018-19, representing an increase of 18.91 *per cent* which was much higher than that of national growth rate (7.21 *per cent*). During the five-year period from 2015-16 to 2019-20, there has been

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a significant decrease in the growth rate of the Primary sector in GSDP, declining from 22 *per cent* in 2015-16 to 12.73 *per cent* in 2018-19, but there was a slight increase in the sector in 2019-20 (13.06 *per cent*). However, an increase was seen in the Secondary sector while the Tertiary sector remained more or less constant in growth while remaining to be the largest contributor to the GSDP.

- The fiscal position of the State is viewed in terms of key fiscal parameters-Revenue deficit/surplus, fiscal deficit/surplus and primary deficit/surplus. It was seen that the State did not achieve the targets specified by the XIV FC during 2019-20 with regard to the key fiscal parameters, compared to the previous year. It had a fiscal deficit of ₹ 1224.31 crore during the year 2019-20, representing 4.62 *per cent* of the GSDP. The Primary Surplus of ₹ 15.76 crore during 2018-19 changed into Primary Deficit of ₹ 881.19 crore during the current year and the Revenue surplus of ₹ 1,533.91 crore in 2018-19 reduced to ₹ 204.30 crore during 2019-20.
- After successfully containing the Fiscal Deficit below three *per cent* of GSDP during 2015-19, the State's Fiscal Deficit increased to 4.62 *per cent* of GSDP during 2019-20. Fiscal Deficit increased by ₹ 871.39 crore from ₹ 352.92 crore in 2018-19, witnessing growth of 246.91 *per cent*. The State Government was able to meet the target ratio of total outstanding debt to GSDP and the debt ratio reduced marginally to 32.74 *per cent* from the previous year's 32.82 *per cent*. Primary deficit stood at 3.32 *per cent* of GSDP (₹ 881.19 crore).
- The State Government short contributed ₹ 36.58 crore to the Consolidated Sinking fund and interest of ₹ 1.61 crore on Interest bearing Reserve Funds was not provided during the year. This led to overstatement of Revenue deficit and understatement of fiscal deficit by ₹ 38.19 crore, during the year 2019-20.

### **Recommendations**

- *The Government may adhere to targets of MFRBM Act set for fiscal deficit.*
- *The Government may explore essential potentials to increase the growth of the Primary sector in its GSDP.*
- *The Government needs to make more efforts to increase its tax and non-tax revenues since there was a reduction in the Revenue Surplus during the year and guard against becoming a revenue deficit State.*

**(Chapter 1)**

### **Finances of the State Government**

- Revenue Receipts during the year 2019-20 were ₹ 9,658.26 crore which increased by ₹ 618.76 crore (6.85 *per cent*) over the previous year. State's Own Tax revenues and Non-Tax revenue increased by ₹ 4.28 crore (0.59 *per cent*) and ₹ 72.39 crore respectively (16.09 *per cent*) as compared to the previous year. Grants-in-aid from GoI

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also increased by ₹ 1,027.25 crore (23.56 *per cent*), whereas State's Share of Union taxes and Duties decreased by ₹ 485.16 crore (13.85 *per cent*) during 2019-20 as compared to the previous year.

- In the three years during which the GST Act has been in effect, revenue collected by the Government of Mizoram through SGST has risen by 213.51 *per cent* from ₹ 169.76 crore in 2017-18 to ₹ 532.22 crore in 2019-20. Besides, GST receipts in 2019-20 exceeded the projected revenue by ₹ 211.17 crore, therefore, the State Government did not receive any GST compensation during 2019-20.
- Revenue expenditure during the year 2019-20 was ₹ 9,453.96 crore (86.66 *per cent*) against the total expenditure of ₹ 10,909.26 crore. Committed expenditure like salary & wages, pension, interest payments steadily increased during the last five years period 2015-20. The Committed expenditure during 2019-20 was ₹ 4,987.06 crore (51.64 *per cent* of the total Revenue receipts of ₹ 9,658.26 crore and 52.75 *per cent* of the total Revenue expenditure of ₹ 9,453.96 crore.
- Capital expenditure is the expenditure incurred for creation of fixed infrastructure assets such as roads, building, *etc.* It is noticed that during the year capital expenditure decreased by ₹ 495.80 crore (26.54 *per cent*) from ₹ 1,868.47 crore to ₹ 1,372.67 crore. Salaries and Wages (₹ 3,211.44 crore) accounted for almost one third of the Revenue Receipts (₹ 9,658.26 crore) as well as Revenue Expenditure (₹ 9,453.96 crore). The expenditure on Pension Payments increased by 132.44 *per cent* from ₹ 616.30 crore in 2015-16 to ₹ 1,432.50 crore in 2019-20.
- As on 31 March 2020, the State Government had invested ₹ 42.77 crore in Government Companies, Co-operative Bank, Societies, *etc.* with no additional investment made during the year. However, it did not receive any dividend on these investments in 2019-20 nor in the preceding four financial years.
- As on 31 March 2020, 121 projects (estimated cost ₹ 1,463.39 crore) on which an expenditure of ₹ 1,149.22 crore had been incurred, remained blocked and the benefits expected to be accrued from these projects were yet to flow. Further delay in completion of these projects was fraught with the risk of cost overrun as evidenced during 2019-20 where there was a cost overrun of ₹ 33.69 crore.
- In the year 2019-20, against the minimum required contribution of ₹ 36.58 crore to the Consolidated Sinking Fund (0.50 *per cent* of outstanding liabilities of ₹ 7,315.55 crore as on 1 April 2019), the State Government did not make any contribution to the Fund, thereby violating the extant Rules and the Government has deferred the current year's liabilities of ₹ 37.08 crore to future years.
- During 2019-20, Government of Mizoram had withdrawn ₹ 21.68 crore from the State Disaster Response Fund which was kept in the Saving Bank account operated jointly by the Finance Department (Economic Affairs) and Disaster Management and

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Rehabilitation Department and no expenditure towards natural calamities was booked under MH 2245, except those relating to transfer to fund and withdrawal for current account. The Fund accounting was not as per the prescribed guidelines.

- The State had Outstanding guarantees of ₹ 142.29 crore including interest as on 31 March 2020.
- The State's outstanding liabilities increased from ₹ 7,315.54 crore in 2018-19 to ₹ 8,678.26 crore in 2019-20, whereas, Debt/GSDP ratio slightly decreased from 32.82 *per cent* to 32.74 *per cent* during the same period. Projection in the MTFP relating to Debt-GSDP ratio was not met during 2019-20. However, State Government was able to meet the target ratio of total outstanding debt to GSDP prescribed by XIV FC (44.78 *per cent* for 2019-20).
- An analysis of the outstanding debt revealed that out of the outstanding public debt of ₹ 4,018.03 crore as on 31 March 2020, 56.97 *per cent* (₹ 2,289.27 crore) was payable within the next seven years while the remaining 43.03 *per cent* (₹ 1,728.76 crore) was in the maturity bracket of more than seven years. The total amount of outstanding market loans was ₹ 2,790.60 crore and interest due and payable until their maturity was ₹ 1,155.75 crore.
- The State Government had used borrowed funds for meeting both capital and revenue expenditure during the period 2015-20. During 2019-20, the percentage of capital expenditure to borrowings was 119.60 *per cent*.
- The State Government was unable to maintain the minimum daily cash balance of ₹ 0.20 crore throughout 2019-20 and availed Special WMAs of ₹ 72.29 crore for two days during the current year which was duly settled prior to the end of the year.

### **Recommendations**

- *State Government may take necessary steps to reduce the ratio of committed expenditure to revenue expenditure to ensure that debt levels remain serviceable by the resources of the State.*
- *State Government may assess the potential sources of revenue available internally and take steps to ensure that maximum potential revenue is achieved. As an example, the State government may consider enhancing revenue generation through eco-tourism initiatives and other sustainable development goals of a similar nature.*
- *The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments.*
- *State Government needs to formulate effective plans for execution of its major policy initiatives and ensure that capital expenditure for creation of durable assets is increased.*

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- *The State Government needs to give greater thrust on completion of incomplete projects in a planned manner with periodical review and monitoring mechanism at the highest level of administration so as to avoid time and cost inefficiencies and consequential extra financial burden on the Government.*
- *Increasing trend of borrowings vis-à-vis the level of debt maturity profile needs to be reviewed so as to ensure that mobilised financial resources are used adequately for incurring capital expenditure for creation of assets.*

*(Chapter 2)*

### Budgetary Management

- Against the total budget provision of ₹ 14,346.73 crore, State Government Departments incurred an expenditure of ₹ 11,367.37 crore. There was an overall saving of ₹ 2,998.68 crore which was offset by excess of ₹ 19.42 crore under five Grants and one appropriation, resulting in net savings of ₹ 2,979.36 crore. It was 20.77 per cent of total Grants/Appropriations and was 32.66 per cent of the expenditure during the year 2019-20. Out of ₹ 2,998.68 crore, ₹ 1,392.50 crore of savings were surrendered up to the end of March 2020. Percentage of savings to that of the expenditures ranged between 19.43 per cent in 2017-18 to 30.13 per cent in 2016-17. Large amount of savings in allocated funds indicate both inaccurate assessment of requirement as well as inadequate capacity of Departments, to utilise the funds for the intended purposes and thus inefficient budgetary management by the State Government.
- An expenditure of ₹ 2.80 crore was incurred in six Grants/Appropriations without any provision in the original estimates or supplementary demands. Supplementary provisions of more than ₹ 50 lakh were obtained in each case under 21 Grants/Appropriation even though the actual expenditure was less than the original provision. Approximately 40 per cent of the funds allocated to 18 out of the 48 Grants and appropriation were not utilised during the year.
- Analysis of Grant No. 22 - Department of Sports and Youth Services revealed persistent savings of around ₹ one crore every year during the five-year period 2015-20. The percentage of savings to total in the Grant 22, ranged between 1.93 and 27.56 per cent.
- During the period 2015-20, there was an excess expenditure of ₹ 93.37 crore, covering nine departments which needs to be regularized in accordance with the constitutional provisions.

### Recommendations

- *State Government needs to formulate a budget based on reliable assumptions of the needs of the Departments and their capacity to utilise the allocated resources. Controlling Officers need to be made aware of their responsibility to explain the variation in expenditure from the allocation to facilitate proper analysis of budget;*

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- *Government should enforce its commitment to achieve its promised/intended objectives for overall development of the State through improved execution, monitoring and financial management of schemes/projects;*
- *An appropriate control mechanism needs to be instituted by the Government to enforce proper implementation and monitoring of budget to ensure that savings are curtailed, large savings within the Grant/ Appropriation are controlled, and anticipated savings are identified and surrendered within the specified timeframe. Demands for supplementary grants should be critically reviewed, w.r.t actual expenditure incurred by Departments; and*
- *Expenditure exceeding the limits approved by the Legislature is a violation of the will of the Legislature and therefore of the public. It therefore, needs to be viewed seriously and regularized at the earliest.*

**(Chapter 3)**

### Quality of Accounts and Financial Reporting Practices

- 141 Utilisation Certificates (UCs) in respect of grants aggregating ₹ 228.76 crore given to Departments of the State Government during the period upto March 2020 were not submitted by Departments concerned, to the Pr. Accountant General (A&E). Non submission of UCs is fraught with the risk of fraud and misappropriation of funds.
- During 2019-20, DCC bills for the AC Bills were submitted, however there were 29 AC Bills relating to 2018-19 pending for adjustment, amounting to ₹ 85.92 crore.
- During 2019-20, the State Government booked an expenditure of ₹ 1,909.11 crore under Minor Head 800 under 150 revenue and capital Major Heads of Account, constituting 17.50 *per cent* of the total revenue and capital expenditure of ₹ 10,909.26 crore. Similarly, receipts of ₹ 427.76 crore were booked under Minor Head 800 'Other Receipts' under 44 Revenue Major Heads of accounts, constituting 4.43 *per cent* of the total Revenue Receipts of ₹ 9,658.26 crore. These omnibus bookings rendered the Accounts non-transparent.
- As per information provided by the State Government, ₹ 474.04 crore was lying in the bank accounts of 328 DDOs as on 31 March 2020. Drawal of moneys from the Consolidated Fund and keeping in DDOs' Bank Account for further utilisation result in fictitious expenditure in the books and dilutes expenditure control mechanism.
- The Pr. Accountant General (Audit), Mizoram has not received 10 annual accounts of three Autonomous Councils, one Development Council and two Government Bodies due up to 2019-20 for audit, as of 30 September 2020.
- The Pr. Accountant General (Audit), Mizoram has not received 58 annual accounts of six Government Companies and three Departmental Undertakings. The concerned Administrative Departments overseeing these SPSEs need to ensure that they finalise



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the accounts of the SPSEs within the stipulated period under the law, failing which financial support to them be reviewed.

- Four cases of misappropriation to the tune of ₹ 41.73 lakh relating to the four departments were detected during 2019-20.

### Recommendations

- *The Government may ensure timely submission of utilisation certificates by the Departments in respect of the grants released for specific purposes. They may review granting of further financial assistance to persistent defaulters.*
- *The Government may ensure adjustment of outstanding Abstract Contingent bills within stipulated period, as required under the Rules.*
- *The Finance Department should, in consultation with the Pr. Accountant General, Mizoram conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditures are booked under the appropriate heads of account immediately.*
- *The Finance Departments may take action for closure of DDO accounts for parking of Government funds.*
- *Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position. The Government should ensure the receipt of complete accounts before giving financial assistance to these bodies/ undertakings.*
- *The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.*

(Chapter 4)

### Functioning of State Public Sector Enterprises

As on 31 March 2020, the State of Mizoram had total six SPSEs (all working Government companies). As on 31 March 2020, there were differences in the figures of State's investment in Equity (₹ 47.05 crore) and Loan (₹ 23.58 crore) of SPSEs as per State Finance Accounts vis-à-vis records of SPSEs.

During 2019-20 the State Government has provided budgetary support of ₹ 5.53 crore to two SPSEs in the form of Grants/subsidy to meet the salaries and other establishment expenditure. The recipients of the budgetary assistance were Zoram Industrial Development Corporation Limited (₹ 3.42 crore) and Mizoram Handloom and Handicrafts Development Corporation Limited (₹ 2.11 crore). The State Government did not provide equity assistance to any PSUs during 2017-20.

During 2019-20, out of six working SPSEs, only one SPSE earned profits (₹ 0.82 crore) as per its latest finalised accounts. Further, the accumulated losses (₹ 28.00 crore) of three working SPSEs had completely eroded their paid-up capital (₹ 25.60 crore).

As on 30 September 2020, all six working SPSEs had a total arrear of total 32 Accounts ranging from one to 10 Accounts. The highest pendency of accounts pertained to Zoram Electronics Development Corporation Limited (10 Accounts) and Mizoram Agricultural Marketing Corporation Limited (nine Accounts).

***Recommendations***

- *The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.*
- *Accumulation of huge losses by three out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to either improve their profitability or fully review the working of these SPSEs for continuing their operations.*
- *The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them may be reviewed.*

***(Chapter 5)***