

# EXECUTIVE SUMMARY



## Executive Summary

### *About this Report*

*This Report of the Comptroller and Auditor General of India is on the State Finances for the year 2022-23. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.*

*This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projections, the reasons for variations and its impact.*

Gross State Domestic Product (GSDP) at current prices grew at an average growth rate of 12.15 *per cent* from ₹25,334.86 crore in 2018-19 to ₹39,671.24 crore in 2022-23. The growth rate of Gross State Value Added (GSVA) was higher than that of Gross Value Added (GVA) during 2018-19 to 2020-21. While the growth rate of GSVA during 2021-22 to 2022-23 was lower than the growth rate of the GVA. Budget outlay of the State grew at an average growth rate of 11.38 *per cent* from ₹26,835.17 crore in 2018-19 to ₹32,965.08 crore in 2022-23.

There was 11.80 *per cent* growth rate in GSDP over 2021-22. The revenue receipts grew at 12.04 *per cent* and the *percentage* of revenue receipts over GSDP improved from 59.83 *per cent* in 2021-22 to 59.96 *per cent* in 2022-23. The tax revenue (Own tax and Share of Union taxes/ duties) increased by 16.23 *per cent* over 2021-22. State's own resources (Own tax and Non tax) increased by 34.82 *per cent*. The total expenditure (Revenue expenditure, Capital expenditure and Loans and Advances) increased by 14.28 *per cent* from ₹22,337.53 crore in 2021-22 to ₹25,528.40 crore in 2022-23. Of this, revenue expenditure increased by 9.91 *per cent* and capital expenditure increased by 24.95 *per cent* over the previous year. Revenue surplus (₹6,370.47 crore) during 2022-23 increased by ₹985.47 crore (18.30 *per cent*) over the previous year (₹5,385.00 crore). Similarly, the Fiscal Deficit (₹1,735.40 crore) increased by ₹636.36 crore over the previous year (₹1,099.04 crore).

### *FRBM requirements and compliance*

The Government of Arunachal Pradesh amended its Fiscal Responsibility and Budget Management (FRBM) in April 2022, and is deemed to have come into force with effect from 01 April 2022. It has been noticed from the amended FRBM Act, that the Act is not consistent with the fiscal sustainability framework as per the recommendation of the XV FC as the Government of Arunachal Pradesh amended the targets for Fiscal Deficit only.

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### Revenue Receipts and Expenditure

The State has different sources of receipts such as Own tax revenue, Non-tax revenue, share of Union taxes/ duties, Grants-in-Aid transfers from Union Government and non-debt Capital receipts. The State Government's expenditure includes expenditure on revenue as well as capital expenditure (creation of assets, loans and advances, investments, etc.).

From 2018-19 to 2022-23, revenue receipts grew from ₹16,195.96 crore to ₹23,788.14 crore, with an average annual growth rate of 12.11 *per cent*. Capital receipts also increased from ₹1,210.05 crore to ₹2,484.42 crore during this period. The share of Grants-in-Aid in revenue receipts fell down from 25.21 *per cent* in 2018-19 to 16.16 *per cent* in 2022-23. In 2022-23, the buoyancy of revenue receipts was lower and the State's own revenue was higher over the previous year. The State Government received ₹3,016.24 crore as Central share for the Centrally Sponsored Schemes (CSSs) in the year. As on 31 March 2023, an amount of ₹1,925.53 crore (including both Central and State shares) were parked in Single Nodal Agency's (SNA) bank accounts of 68 schemes. Out of ₹1,925.53 crore, the major amount (52.59 *per cent*) was parked in SNA bank accounts under Jal Jeevan Mission (₹538.35 crore) and Pradhan Mantri Gram Sadak Yojana (₹474.36 crore).

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such, it does not result in any addition to the State's infrastructure and service network. Between 2018-19 and 2022-23, revenue expenditure increased from ₹12,429.48 crore (49.06 *per cent* of GSDP) to ₹17,417.67 crore (43.91 *per cent* of GSDP). It consistently made up a significant portion (between 68 and 77 *per cent*) of the total expenditure during this period, growing at an average annual rate of 10.09 *per cent*.

### Result of expenditure

The gap between the revenue receipt and revenue expenditure results in revenue surplus. The State had managed to achieve to a surplus on Revenue account during the last five-years. The revenue surplus of the State increased to ₹6,370.47 crore (16.06 *per cent* of GSDP) in the current year from ₹3,766.48 crore (14.87 *per cent* of GSDP) in the year 2018-19. However, during 2022-23, there was an overstatement of Revenue Surplus of the State by ₹382.28 crore, considering that the overall Revenue Surplus depicted in the accounts was ₹6,370.47 crore, the State would have a Revenue Surplus of ₹5,988.19 crore.

The State Government spent ₹8,110.73 crore only on Capital account. This was 31.77 *per cent* of the total expenditure in the year 2022-23. Capital expenditure was 326.97 *per cent* of the total borrowings. Thus, the borrowed funds were being used for capital creation/ development activities.

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The gap between the total expenditure and total non-debt receipt of the State results in fiscal deficit. The fiscal deficit of the State decreased to ₹1,735.40 crore (4.37 per cent of GSDP) in 2022-23 from ₹1,976.03 crore (7.80 per cent of GSDP) in 2018-19. However, during 2022-23, the Fiscal Deficit was found understated by ₹386.42 crore, considering that adjustments, the State would have Fiscal Deficit of ₹2,121.82 crore instead of ₹1,735.40 crore.

Under the revenue expenditure, the quantum of committed expenditure constitutes the largest share. Committed expenditure has the first charge on the resources and consists of interest payments, expenditure on salaries and wages and pensions. Committed expenditure on interest payments, salaries and pensions hovered around 54.49 and 61.55 per cent of revenue expenditure during 2018-19 (54.49 per cent) and 2022-23 (57.85 per cent). The Committed expenditure increased at an average rate of 8.59 per cent i.e. from ₹6,772.42 crore in 2018-19 to ₹10,075.67 crore in 2022-23 {an increase of 13.07 per cent over 2021-22 (₹8,910.75 crore)}.

In addition to the committed expenditure, inflexible expenditure decreased from 16.36 per cent to 6.05 per cent of revenue expenditure during 2018-19 to 2022-23, indicating a declining trend. The inflexible expenditure decreased from ₹1,290.66 crore in 2021-22 to ₹1,053.55 crore in 2022-23 registering a decrease of 18.37 per cent. The average growth of inflexible expenditure during the period from 2018-19 (₹2,034.02 crore) to 2022-23 (₹1,053.55 crore) was (-)3.40 per cent.

Taken together, the committed and inflexible expenditure in 2022-23 was ₹11,129.22 crore; 64 per cent of the revenue expenditure. Decreasing trend on committed and inflexible expenditure leaves the Government with flexibility for other priority sectors and capital creation.

### National Pension System (NPS)

The State has not complied with the rules governing National Pension System (NPS). Non-observance of the rules governing NPS by the State Government is fraught with the risk of un-authorized use of funds belonging to its employees, thereby creating uncertainty in respect of the benefits due to the employees, avoidable future liability to the Government, and possible failure of the NPS itself in the State. There was a short contribution of ₹17.66 crore by the State Government in the current year under NPS as the State Government had to contribute the employer's share of ₹183.45 crore (10 per cent from April to June 2022 and 14 per cent from July 2022 to March 2023) and the Government contributed only ₹165.79 crore.

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### *Comprehensive database of its investment in capital projects*

The State did not have a comprehensive database of its investment in capital projects in the past having relevant information such as approved cost, the status of projects, details of completion time of the projects, and liabilities arising out of inordinate delays in completion of these projects as funds aggregating ₹741.81 crore were locked up during 2022-23 against 80 incomplete projects.

The Outstanding balances of Loans and Advances as on 31 March 2023 was ₹90.07 crore. Out of ₹90.07 crore, ₹58.96 crore was extended to the Co-operation, ₹10.00 crore to the Power projects, ₹9.26 crore to Loans for Other industries and mineral and ₹11.85 crore to Government Servants.

### *Non-clearance of outstanding balances under Suspense and Remittance heads*

Non-clearance of outstanding balances under Suspense and Remittance heads affects the accuracy of Receipt/ Expenditure figures and balances under different heads of Accounts as the Outstanding net balances under Suspense and Remittance heads during 2022-23 was ₹1,574.06 crore (Debit).

### *Outstanding Public Liabilities*

Public Debt Receipts consist of borrowings taken from the Market, Financial Institutions and Loans and Advances from the GoI. The major sources of Public debt receipts for the State are Loans and advances from GoI which constitutes 63.08 *per cent* and Internal Debt which constitutes 36.92 *per cent*. The Government has been opting for the Market Borrowings year after year as the share of Market Borrowings (Market loans and Loans from financial institutions) during 2022-23 in Internal Debt was 67.73 *per cent*.

Total Outstanding Public Liabilities of the State as on 31 March 2023, was ₹15,646.75 crore. Out of ₹15,646.75 crore, ₹8,520.83 crore was under Internal Debt, ₹4,882.48 crore under Public Accounts Liabilities and ₹2,243.44 crore under Loans from GoI. Significant portion of the borrowed funds are used for repayment of earlier borrowings leaving less space to use productively as the ratio of public liabilities repayments to the public liabilities receipts ranged between 22.91 to 52.83 *per cent* during the five-years period.

The maturity profile of outstanding stock of Public Debt as on 31 March 2023 indicates that out of the outstanding Public Debt of ₹10,764.27 crore, 53.99 *per cent* (₹5,811.00 crore) is payable within the next seven years while the remaining 46.01 *per cent* (₹4,953.27 crore) is in the maturity bracket of more than seven years. With respect to present Debt liability, the repayment obligation (Principal and Interest) on the State Government will be maximum in 2029-30.

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### *Fiscal sustainability*

Fiscal sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, *etc.* So far as revenue and expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure which includes salaries and wages, pension payments and interest payments *etc.* and also other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds and transfer to local bodies *etc.*

The overall liabilities to GSDP (includes Public Debt and Public Account Liabilities) of the Government were 39.44 *per cent.* Going by the fiscal trends, the State finances are heavily stressed.

The Domar gap remained positive during 2018-19 to 2019-20 which shows that public debt as *percentage* of GSDP would converge into a stable level. While, it turned into negative during 2020-21 which shows that public debt as *percentage* of GSDP would increase indefinitely, without converging into a stable level. During 2021-22 to 2022-23, the Domar gap was positive which shows that public debt as *percentage* of GSDP would converge into a stable level.

### *Reconciliation of Cash balances*

Cash Balances of the State Government decreased by ₹10.20 crore from ₹4,356.35 crore in 2021-22 to ₹4,346.15 crore in 2022-23. There was a net difference of ₹217.29 crore (Credit) at the end of accounting year 2022-23 between the General Cash Balance as worked out by the Accountant General ₹945.59 crore (Credit) and that reported by the RBI ₹728.30 crore (Debit).

### **Budget performance**

#### *Aggregate expenditure outturn*

Aggregate Budget Outturn measures the extent to which the aggregate actual expenditure compares with the amount originally approved both in terms of excess and saving. In the revenue section, deviation in outturn compared with Budget Estimates (BE) was (-)3.27 *per cent.* This was due to deviation up to  $\pm 25$  in 51 grants, between (-)25 to (-)50 in 18 grants, between (-)50 to (-)100 in six grants and equal and more than (-)100 in four grants. In the Capital section, deviation in outturn compared with BE was (+)15.37 *per cent.* This was due to deviation up to 25 in 20 grants, between 25 to 50 in 10 grants, between 50 to 100 in 10 grants and equal to or more than 100 in 17 grants.

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### Expenditure Composition Outturn

Expenditure Composition Outturn measures the extent to which re-allocation between the main budget categories during the execution have contributed to variance in the expenditure composition. In the revenue section, deviation in outturn compared with Budget Estimates (BE) was (-)17.92 per cent. This was due to deviation up to  $\pm 25$  in 58 grants, between (-)25 to (-)50 in 17 grants, between (-)50 to (-)100 in three grants and equal and more than (-)100 in one grant. In the Capital section, deviation in outturn compared with BE was (+)24.77 per cent. This was due to deviation up to 25 in 43 grants, between 25 to 50 in four grants, between 50 to 100 in eight grants and equal to or more than 100 in two grants.

During 2022-23, an expenditure of ₹119.50 crore was incurred on four schemes under two Grants/ Appropriations without any budget provision, Supplementary Demands or re-appropriation orders, which is in violation of financial regulations and without the authority of the Legislature.

During 2022-23, Supplementary grants of ₹713.32 crore (₹10.00 lakh and more in each case) provided in 14 Grants proved unnecessary as the expenditure did not come up to the level of original provision, indicating that Supplementary Grants were provided in an ad-hoc manner. Further, in respect of 41 cases, Supplementary provisions aggregating ₹6,573.61 crore proved excessive by ₹2,807.98 crore under 40 cases and inadequate by ₹13.74 crore in one case.

There was misclassification of ₹19.32 crore towards Revenue Expenditure as Capital Expenditure and *vice-versa*. Further, during 2022-23, 99 no. of sanction orders issued by the government involving ₹22.05 crore did not indicate the provision in the grant or appropriation from which the expenditure was to be met or the head of the account under which the expenditure was to be classified.

In 181 cases, the re-appropriation was not made after realistic assessment as the expenditure was less/ more than the final appropriated amount pointing to excessive/ Unnecessary/inadequate/Injudicious of the re-appropriation ordered. The re-appropriation proved inadequate as the expenditure finally was more than the total grant available in 15 cases by ₹49.97 crore. Similarly, re-appropriation was injudicious in 10 cases by ₹6.09 crore as the expenditure was more than the final grant. In respect of 121 cases, the re-appropriation proved excessive by ₹922.64 crore as total expenditure was ₹7,750.55 crore against the final grant ₹8,673.19 crore.

Savings during the year accounted for about one-fifth of the budget. The Controlling Officers did not surrender the funds on time. However, Departments were not cautioned against persistent savings; nor were their budgets varied in accordance with their ability



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to absorb the allocations. In 23 cases, savings (₹one crore or above in each case) during 2022-23 was ₹3,660.69 crore in the Revenue section and ₹2,474.67 crore in 13 cases under the Capital section. Out of these, there were savings of ₹100 crore and above under 16 Grants. Further, there were persistent savings in 21 Grants during the last five years, indicating lack of systemic and closer budget review by the Government.

Non-compliance with the rules stated not only deprives other needy Departments of resources, but also defeats the very objective of achieving efficiency in budget management, which may be an impediment to the speedy development of State as in respect of 57 cases, anticipated savings were not surrendered by the prescribed date.

During 2022-23, there was excess over provisions in nine Grants/ Appropriations amounting to ₹123.20 crore. In addition, excess expenditure amounting to ₹3,220.44 crore pertaining to the years from 1986-87 to 2021-22, are pending for regularisation. Such excess expenditure over budgetary allocation is a matter of concern and dilutes legislative oversight over public funds.

The substantial variations of actuals with the revised estimates indicated absence of proper care in estimating the revised estimates by the controlling officers concerned as envisaged in the General Financial Rules, 2017 and failure of the Finance Department (Budget).

Performance report for the year 2021-22 (Allocated ₹313.31 crore against 14 departments) was required to be incorporated in the Gender Budget of 2022-23 to ascertain the effectiveness of the schemes targeted to benefit women. It was, however, noticed that no such report was incorporated in the Gender Budget of 2022-23 due to which the actual achievement of schemes for benefit of women could not be analysed.

### Quality of Accounts and Financial Reporting

#### *Non-compliance with accounting guidelines*

The State Government was not following the accounting guidelines of State Disaster Response Fund, State Disaster Mitigation Fund and Central Road and Infrastructure Fund.

#### *Undischarged liability of interest*

The undischarged liability of interest in the current year increases the burden on the Government's Revenue Expenditure at a future date as during 2022-23, the State Government did not discharge interest liability of ₹61.59 crore in respect of balances lying as on 01 April 2022 in the interest-bearing Reserve Funds and Deposits.

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### ***Transferring of funds directly to the Implementing Agencies***

The Government of India (GoI) has been transferring funds directly to the Implementing Agencies in the State for implementing various CSS schemes/ programme in Social and Economic Sectors. During 2022-23, the GoI transferred ₹1,620.25 crore directly to the Implementing Agencies as these funds are not routed through the Consolidated fund of Arunachal Pradesh, the Annual Accounts do not capture the flow, utilisation and parking of such funds. Thus, the State's receipts and expenditure as well as other fiscal variables and parameters derived from the State Accounts do not present the complete picture to that extent.

### ***Non-submission of Utilisation Certificates***

Non-submission of UCs by Departments for funds drawn for specific developmental programme/ projects and non-submission of accounts by Autonomous, Development Bodies and Authorities was violated of prescribed financial rules and directives. These point to inadequate internal controls and deficient monitoring mechanism of the State Government.

### ***Detailed Countersigned Contingent Bills against Abstract Contingent Bills***

Non-adjustment of Abstract Contingent Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective Drawing and Disbursing Officers for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

### ***Delay in rendering of Monthly Civil Accounts***

Delayed rendering of accounts by the account rendering units/ authorities distorted the accurate depiction of monthly transactions of the State and impacted effective budgetary management. Exclusion of accounts not only distorts the budgetary position of the Government but also impacts its monitoring of fund flow to the last mile of implementation, its planned pacing of expenditure on developmental programme.

Delays in the submission of accounts to audit reflects weak internal controls and inadequate monitoring by the State Government in addition to the lack of accountability from these Autonomous/ Authorities for the funds released by the State Government. It may also make the system vulnerable to fraud and leakage of public money.

### ***Working of State Public Sector Enterprises (SPSEs)***

As on 31 March 2023, the State of Arunachal Pradesh had total seven SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2023,

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there were differences in the figures of State's investment in Equity (₹10.49 crore) and Loan (₹28.02 crore) of SPSEs as per State Finance Accounts *vis-à-vis* records of SPSEs.

During 2022-23 the State Government has provided budgetary support of ₹23.52 crore to six SPSEs in the form of Grants/ subsidy. The major recipients of the budgetary assistance during 2022-23 were Arunachal Pradesh Industrial Development and Financial Corporation Limited (₹8.29 crore), Arunachal Pradesh Donyi Polo Hotel Corporation Limited (₹4.64 crore) and Arunachal Pradesh Forest Corporation Limited (₹4.07 crore).

During 2022-23, out of six working SPSEs, one SPSE earned profit (₹3.75 crore) as per their latest finalised account. Further, the accumulated losses (₹29.95 crore) of two working SPSEs had completely eroded their paid-up capital (₹5.20 crore).

As on 30 September 2023, all six working SPSEs had total arrears of 40 Accounts ranging from 02 to 16 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (16 Accounts) and Arunachal Pradesh Forest Corporation Limited (10 Accounts).

### Recommendations

The State Government may take measures to keep the Fiscal Deficit-GSDP ratio under the ceiling prescribed in the Arunachal Pradesh FRBM Act through prudent financial management. The State Government needs to amend the Arunachal Pradesh FRBM in line with the recommendations of the Central Finance Commission. Shore up its resources and explore ways of harnessing the potential within the State by appropriate measures to reduce dependency on GoI.

Adhere to the prescribed procedure for accounting of the NPS transactions scrupulously. It should ensure that Government contribution relating to NPS is fully matched with that of the employees' contribution and that the entire amount is transferred to NSDL in a timely manner to avoid future liability on the State exchequer as well as to provide an assurance to the employees about the returns on their investment.

Maintain an accurate database with regard to the capital invested in projects which are at various stages of completion for several years and review its commitment to these and liabilities arising out of inordinate delays in their completion.

Identify potential wasteful expenditure and adopt economic measures across departments on the increasing trends of share of Committed Expenditure to the Revenue Expenditure.

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Plan in advance for reducing other Committed expenditure and enhancing the revenue collection capacity to meet this obligation so as to mobilise debt resources adequately for incurring Capital expenditure for the creation of assets.

State may ensure that the Budget Estimates should be formulated after taking the inputs from the respective Drawing and Disbursing Officers of the Departments for better management of budgeted funds. The Finance Department may provide supplementary grants only after proper scrutiny and realistic assessment of requirements of the concerned Departments, to avoid under or over spending by them.

Review the expenditure incurred without budget provision seriously and take appropriate corrective measures to strengthen the mechanism for strict compliance with the rules and Treasury Officer strictly adheres to the provisions regarding existence of the budget while passing of bills.

Identify the Departments, which had incurred excess expenditure persistently and closely monitor their progressive expenditure, so that they seek supplementary grants/re-appropriations in time. Further, the State Government also view the excess expenditure over the budgetary provision seriously as the cases are serious lapse against legislative control and take appropriate corrective measures for regularisation of expenditure in excess of budgetary provision.

Ensure timely submission of utilisation certificates by the departments in respect of the grants released for specific purposes.

Expedite the process to clear the old Abstract Contingent (AC) Bills and ensure timely submission of all Detailed Countersigned Contingent Bills to adjust the outstanding AC Bills within the prescribed timeline as required under the rules.

Monitor closely and ensure the rendition of accounts by all the account rendering authorities to the Principal Accountant General on timely basis to manage its own budget more effectively.

Evolve 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 State Government and the State Public Sector Enterprises (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.

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Accumulation of huge losses by two out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.

The Administrative Departments, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs to the GSDP for the year 2022-23 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.

