

EXECUTIVE SUMMARY

Background

This Report on the Finances of the Government of Sikkim 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 2008-09. 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 (TFC) as well as in the Budget estimates of 2008-09. A comparison has been made to see whether the State has given adequate fiscal priority to the developmental, social sectors and capital expenditure as compared to other States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

Since these comments formed part of the Civil Audit Report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to centre-stage once again, a stand-alone Report on State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, Comptroller and Auditor General of India has decided to bring out a separate volume titled “Report on State Finances.”

The Report

Based on the audited accounts of the Government of Sikkim for the year ending March 2009, 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 Sikkim's fiscal position as on 31 March 2009. 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 Sikkim Government's compliance with various reporting requirements and financial rules. This chapter also provides details on non-submission of annual accounts and also delay in placement of Separate Audit Reports in the Legislature by the Autonomous Bodies. Besides, the cases of misappropriation and losses that indicate inadequacy of controls in the Government departments are also detailed in this chapter. The report also has an appendage of additional data collated from several sources in support of the findings.

Audit findings and recommendations

Review of Government investments: A performance-based system of accountability should be put in place in the Government companies/statutory corporations so as to derive profitability and improve efficiency in service. The Government should ensure better value for money in investments by identifying the companies/corporations which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth to be channelised there.

Oversight of funds transferred directly from the 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. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (Accounts & Entitlement).

Cost of collection: The percentage of expenditure on collection during 2008-09 as compared to the corresponding all India average percentage for 2007-08 was high in the cases of sales tax, state excise and taxes on vehicles which the Government needs to look into.

Financial management and budgetary control: This chapter deals with the position of actual expenditure against 44 Grants/Appropriations during 2008-09. It is observed that there is an overall saving of Rs. 500.22 crore and excess expenditure of Rs. 1.98 crore during 2008-09. This excess expenditure of 2008-09 compounded with an excess expenditure amount of Rs. 38.80 crore pertaining to 2004-08, require regularisation by the Legislature under Article 205 of the Constitution of India. A rush of expenditure was also

observed towards the end of the year. In respect of 29 Major Head, more than 50 *per cent* of the total expenditure during the year was incurred in the last month of the financial year, despite clear directions to the contrary. The Abstract Contingent Bills had not been adjusted for long periods of time which was fraught with the risk of mis-appropriation and therefore needs to be monitored closely for settlement within the shortest possible time.

Financial Reporting: This chapter provides an account of the Sikkim Government's compliance with various reporting requirements and financial rules. It was observed that 713 utilisation certificates involving Rs. 13.88 crore were pending as of March 2009. 11 accounts of 8 Autonomous Bodies were in arrears for periods ranging from 3 to 37 months. Besides, cases of misappropriation and losses that indicate inadequacy of controls in the Government departments are also detailed in this chapter. The Government needs to ensure timely and purpose specific utilization of funds as well as finalization of accounts in time.