Executive Summary

Background

This Report on the Finances of the Government of Manipur 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 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 2008-09. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to other States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) have been commenting upon the Government's finances for over three years since the FRBM legislation and have published three Reports already. 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, C&AG have decided to bring out a separate volume titled "Report on State Finances."

The Report

Based on the audited accounts of the Government of Manipur 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 Manipur'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.

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 Manipur Government's compliance with various reporting requirements and financial rules.

Audit findings and recommendations

Fiscal correction: Though the State had achieved two out of four targets as set out in the FRBM Act, 2005, the prospect of achieving the other two targets of containing salary expenditure and fiscal deficit within a limit looks bleak due to impending revision of pay (Para 1.1 and Table 1.2).

Greater priority to capital expenditure: There is an urgent need to ensure that the increased spending under capital heads materialise in actual asset creation and are not merely utilised for financing cost over-run of on-going projects (Para 1.4.1). An internal control mechanism should be put in place to watch if the Government money is expended prudently so that there is value for money and is channelised for the beneficiaries.

Review of Government investments: The average return on Manipur Government's investment in corporations, companies and co-operative institutions varied between zero and 0.08 *per cent* in the past five years against average interest outgo ranging from 6.69 to 9.88 *per cent* (Para 1.6.2). This is obviously an unsustainable proposition. The State Government should, therefore, hasten to seek better value for money in investments. Otherwise, high-cost borrowed funds invested in projects with low financial return will continue to strain the economy. Time has come to revisit the working of State-owned public sector undertakings and work out either a revival strategy or close down the continually loss making companies.

Prudent cash management: To match the State's flow of resources with its expenditure obligations, retention of cash balances need to be minimised. During 2008-09, interest receipts, as percentage of outstanding loans and advances was 0.29 whereas interest paid by the Government as percentage of outstanding liabilities was 6.46 (Para 1.6.3). Proper debt management through advance planning could reduce the need for the State Government to hold large cash surplus.

Debt sustainability: The Government should ideally keep the debt-GSDP ratio stable. The State's increment in non-debt receipt should as far as possible keep in pace with the increment in Total Expenditure so that recourse to borrowed funds to meet the State's expenditure is avoided and put the economy in the path of debt stabilization. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management (Para 1.8).

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 (Para 1.2.2). 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 and Entitlement).

Financial management and budgetary control: This chapter deals with the position of actual expenditure against 51 Grants/Appropriations during 2008-09. It is observed that there is an overall saving of Rs. 413.92 crore and excess expenditure of Rs. 102.87 crore during 2008-09. This excess expenditure of 2008-09 compounded with an excess expenditure amount of Rs. 2585.67 crore pertaining to 1997-2002 and 2007-08, require regularisation by the Legislature under Article 205 of the Constitution of India. Rush of expenditure was also observed towards the end of the year. There were 20 cases in which 100 *per cent* expenditure was incurred during March 2009. The Abstract Contingent Bills amounting to Rs.1013.28 crore had not been adjusted for long periods of time which is fraught with the risk of mis-appropriation and therefore needs to be monitored closely.

It should also be ensured that there is no error in budget preparation such as operation of unauthorised/incorrect heads of accounts, non-observance of correction slip and incorrect allocation of provision.

Financial Reporting: This chapter provides an account of the Manipur Government's compliance with various reporting requirements and financial rules. There were also delays in placement of Separate Audit Reports to Legislature and huge arrears in finalisation of accounts by the ADC/Autonomous Bodies. Out of 50 departments/Autonomous District Councils/Corporations, only four replies were obtained to ascertain the status of non-adjustment of temporary advances, misappropriation, losses *etc.*