Executive Summary

This Report on the Finances of the Government of Mizoram is being brought out with a view to assess objectively the financial performance of the State during the year 2009-10. 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, 2006 as well as in the Budget Estimates of 2009-10. 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 North East (NE) States in the country and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General (C&AG) has been commenting upon the Government's finances for three years since the FRBM legislation and has 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 audit. 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 the State Government finances is considered an appropriate audit response to this challenge. Accordingly, from the report year 2008-09 onwards, C&AG had decided to bring out a separate volume titled "Report on State Finances". This Report is the second in this endeavor.

The Report

Based on the audited accounts of the Government of Mizoram for the year ending March 2010, this Report provides an analytical review of the Annual Accounts of the State Government. The Report is structured in three Chapters.

Chapter-I is based on the audit of Finance Accounts and makes an assessment of Mizoram Government's fiscal position as on 31 March 2010. 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-II 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-III is an inventory of Mizoram Government's compliance with various reporting requirements and financial rules.

The report also has appendices of additional data collated from several sources in support of the findings and at the end gives a glossary of selected terms related to State economy, used in this report.

Audit findings and recommendations

Revenue receipts increased to ₹ 2,963.51 crore in 2009-10 from ₹ 2,653.13 crore in 2008-09 (11.70 *per cent*), mainly due to increase in Grants-in-Aids (₹ 318.44 crore). Non-tax revenue, however, decreased from ₹ 158.67 crore in 2008-09 to ₹ 126.51 crore in 2009-10 (20.27 *per cent)*. The revenue receipt (₹ 2,963.51 crore) was, however, lesser by ₹ 45.70 crore (1.52 *per cent)* than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,009.21 crore) (Para 1.1).

The Government should mobilize additional resources both through tax and non- tax resources. It should also make efforts to collect revenue arrears, increase tax compliance, and reduce tax administration cost. There is an urgent need to improve tax collection efficiency**.**

Funds transferred directly from the Government of India (GOI) to the State implementing agencies: As long as the funds transferred from Central to State Government under major flagship and other important schemes remain outside the State budget with no monitoring at any level and with no readily available data on its expenditure in any particular year, the system is at risk in accountability and transparency (Para 1.3.2).

A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated both by the State Government as well as the Accountant General (A&E).

Revenue expenditure and Capital expenditure increased by ₹ 388.90 crore (16.81 *per cent*) and ₹ 131.76 crore (29.87 *per cent*) respectively over the previous year. Revenue expenditure was lower by ₹ 129 crore (4.56 *per cent*) than the assessment made by the State Government in its FCP (₹ 2,831.69 crore). However, Capital expenditure was higher by ₹ 179 crore (45.43 *per cent*) than the projection made by the State Government in its FCP (₹ 393.87 crore) (Para 1.1).

The total expenditure of the State increased from ₹ 2,772 crore in 2008-09 to ₹ 3,300 crore in 2009-10. Of the total expenditure, the revenue expenditure (₹ 2,703 crore) constituted 81.90 *per cent* while capital expenditure (₹ 573 crore) constituted 17.35 *per cent* and loans and advances (₹ 25 crore) formed 0.75 *per cent*.

The breakup of total expenditure in terms of plan and non-plan expenditure reveals that while the share of plan expenditure constituted 41.30 *per cent* (₹ 1,363 crore), the remaining 58.70 *per cent* (₹ 1,937 crore) was non-plan expenditure. The increase in total expenditure during 2009-10 over the previous year was mainly due to increase in revenue expenditure by ₹ 389 crore (16.81 *per cent*), capital expenditure by ₹ 132 crore (29.93 *per cent*) and loan and advances by ₹ eight crore (43.25 *per cent)* (Para 1.5.1).

The State Government should focus on improving outcome oriented expenditure so that the benefits of public spending reach the targeted population. The Government should also focus on expenditure management to bring about qualitative improvement in the public spending. The State Government should initiate action to restrict the components of non-plan revenue expenditure by phasing out implicit subsidies and resort to need based borrowings to curb interest and principal payments.

During 2009-10, there was a fall in all the three major fiscal indicators *viz.*, revenue, fiscal and primary deficits over the previous year. The revenue surplus decreased to ₹ 261 crore in 2009-10 from ₹ 339 crore in 2008-09 (23 *per cent*). Fiscal deficit increased from ₹ (-) 94 crore (2.03 *per cent* of GSDP) in 2008-09 to ₹ (-) 311 crore (5.54 *per cent* of GSDP) in 2009-10. Similarly, the Primary surplus of ₹ 131 crore in 2008-09 turned to a deficit of ₹ (-) 57 crore in 2009-10; mainly due to increase in expenditure both in revenue and capital expenditure. The fact that Primary surplus of previous year reversed to deficit in the current year indicates that the State's receipt was not able to meet the quantum of expenditure of the current year (Para 1.10.1).

There is an urgent need to initiate adequate measures to contain expenditure on pension and salaries relative to its own resources. The State Government, therefore, needs to restructure its fiscal policies on expenditure to contain it within the optimum level of resources.

As of 31 March 2010, there were 48 incomplete projects in which ₹ 306 crore was blocked (Para 1.7.1).

The overall fiscal liabilities of the State Government increased by ₹ 14 crore (0.39 *per cent*) from ₹ 3,614 crore in 2008-09 to ₹ 3,628 crore in 2009-10 and was 65 *per cent* of GSDP. The ratio of fiscal liabilities to GSDP has decreased from 78 *per cent* in 2008-09 to 65 *per cent* in 2009-10. The fiscal liabilities of the State Government was also ₹ 338 crore more than FCP projection in 2008-09 (₹ 3,276 crore) and ₹ 260 crore more in 2009-10 (₹ 3,368 crore). These fiscal liabilities stood at nearly 1.22 times the Revenue receipts and 15.50 times of State's Own Resources at the end of 2009-10.

As per para 24 of the 13th Finance Commission recommendations, Fiscal Liabilities should be limited to 25 *per cent* of GSDP by 2014-15. During the current year, percentage of fiscal liabilities to GSDP was 65 *per cent* which was much higher compared to the recommendation (Para 1.8.2).

Thus, there is an urgent need for the State Government to re-look at its borrowings and repayment patterns and to ensure that the increasing trend of Capital Expenditure materialize into concrete assets creation to enable a faster growth of GSDP and ensure better repayment capacity.

As of 31 March 2010, Government had invested ₹ 19 crore in Government Companies and Co-operatives. The average return on this investment was nil in the last five years, while the Government paid an average interest rate ranging from 6.43 *per cent* to 7.56 *per cent* on its borrowings during 2005-10. During 2005-10, the State Government's investments have increased by ₹ 5.32 crore. As of March 2010, five Working Government Companies have registered accumulated loss of ₹ 43.30 crore (Para 1.7.2).

In view of the substantial losses in all the five Working Government Companies, the Government should review their working so as to wipe out their losses and consider measures for revamping the PSEs with prospects of revival or for winding up of units with no such prospects.

The State Government had guaranteed loans raised by various corporations and others which at the end of 2009-10 stood at ₹ 103 crore. The outstanding guarantees decreased by 23 *per cent* from ₹ 134 crore in 2008-09 to ₹ 103 crore in 2009-10. The outstanding guarantees were 3 *per cent* of the revenue receipts of the Government and it is pertinent to note that if the liabilities arising out of the outstanding guarantees are added to the fiscal liabilities of the State Government at the close of the current year, the ratio of total liabilities to GSDP would increase from 65 *per cent* to 66 *per cent*. Since managing contingent liabilities is an issue of concern, the State Government needs to follow a conscious policy of restricting the size of contingent liabilities (Para 1.8.3).

The State could maintain a healthy debt stabilisation scenario due to robust growth of GSDP (21 *per cent*) in 2009-10 despite reversal of Primary Surplus to Primary Deficit in the current year. However, increase in Non-debt receipt in the current year was lesser than the incremental Aggregate expenditure; resulting in resource gap of ₹ (-) 218 crore in 2009-10. This meant that the gap in expenditure had to be met from the borrowed funds and as such due prudence needs to be applied in the expenditure pattern so that resource gap remains within manageable controls of the fiscal capability of the State. Net availability of borrowed funds was also reduced to ₹ (-) 241 crore in 2009-10 from ₹ 10 crore due to more redemption of past obligations of past borrowings than the debt receipt of the State in the current year. The debt burden of the

State was also positive during 2005-10 as the fiscal burden of Interest payment continued to maintain a declining trend; indicating that increase of debt burden was lesser than the growth of Revenue receipts during 2005-10.

In view of the decline in Revenue surplus and increase in Fiscal deficit, there is an urgent need to apply due prudence in expenditure pattern so that resource gap remains within manageable controls of the fiscal capability of the State. The State should make efforts to return to Primary surplus as in the previous year to widen the scope of fiscal manoeuvre towards more productive and capital creation expenditure (Para 1.9).

Financial Management and Budgetary Control: During 2009-10, expenditure of ₹ 3,767.80 crore was incurred against the total grants and appropriations of ₹ 4,510.21 crore, resulting in savings of ₹ 742.41 crore. The overall savings was the net result of saving of ₹ 743.32 crore which was offset by excess of ₹ 0.91 crore (Para 2.2).

Expenditure aggregating ₹ 272.11 crore exceeded the approved provision by ₹ 61.21 crore which need to be regularised by the State Government. To avoid lapse of budget grant, an amount of ₹ 821.68 crore (including opening balance of ₹ 349.97 crore) was drawn and retained in Civil Deposit under Head of Account - 8443 during 2009-10. Out of this, an amount of ₹ 366.25 crore was withdrawn leaving a closing balance of ₹ 455.43 crore at the close of the financial year 2009-10. Supplementary provision aggregating ₹ 157.95 crore obtained in 24 cases during the year proved unnecessary as the expenditure did not come up to the level of original provision. There were also instances of injudicious re-appropriation and unexplained re-appropriation during 2009-10. There was substantial surrender of ₹ 458.37 crore in 47 cases against the provision of ₹ 723.94 crore, wherein 100 *per cent* surrender of ₹ 23.72 crore in 16 cases was involved. As against savings of ₹ 137.18 crore, an amount of ₹ 143.93 crore was surrendered resulting in excess surrender of ₹ 6.74 crore. At the close of the financial year 2009-10, there was one grant/appropriation in which savings of ₹ 102.51 lakh (0.14 *per cent* of total savings) occurred but no amount of this savings was surrendered by the concerned Departments (Para 2.3).

As of March 2010, 16 Controlling Officers did not reconcile expenditure amounting to ₹ 3,110.74 crore (Receipt ₹ 2,728.26 crore and Payment ₹ 382.48 crore). An amount of ₹ 22.58 crore drawn in AC bills remained outstanding as of March 2010 due to non submission of DCC bills to that extent (Para 2.4.1).

Provision of funds through supplementary provisions should be used as an instrument to fine-tune the flow of expenditure and should be applied in a judicious manner so that budget provisions and actual expenditure are convergent to each other as nearest as possible.

A close and rigorous monitoring mechanism should be put in place by the DDOs to adjust the Abstract Contingent (AC) bills within 30 days from the date of drawal of the amount.

Financial Reporting: At the close of March 2010, an amount of ₹ 1,655.70 crore remained outstanding for want of 7,821 UCs. In the absence of the UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which these were given. Annual accounts of one Autonomous District Council (Chakma) for the year 2009-10 had not been received by the Accountant General (Audit) as of January 2011 (Para 3.1 & 3.2).

In spite of repeated comments about the arrears in preparation of accounts of two Commercial Undertakings by the Comptroller and Auditor General of India in previous State reports, no improvement has been reported by the undertakings. In the absence of timely finalisation of accounts, the investment of the Government remained outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures, if any, needed for ensuring accountability could not be taken in time (Para 3.3).