EXECUTIVE SUMMARY

BACKGROUND

Government of Arunachal Pradesh responded to the Twelfth Finance Commission's (TFC) recommendation by legislating "Arunachal Pradesh Fiscal Responsibilities and Budget Management (APFRBM) Act" in March 2006. The Act sets out a reform agenda through fiscal correction path in the medium term with the long-term goal of securing growth stability for its economy. The State Government implemented the Value Added Tax during 2005-06 which will go a long way in increasing tax revenue of the State.

The State Government has done well in establishing an institutional mechanism on fiscal transparency and accountability as evident from the year-on-year presentation of outcome budgets. These outcome indicators tend to serve a limited purpose of measuring the performance against the targets. They do not, however, give the 'big picture' of the overall financial management including debt position, cash management, etc. for the benefit of the State Legislature and other stakeholders.

The Comptroller and Auditor General's (C&AG) Civil Audit Reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for two years since the APFRBM legislation and have published two 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 as an appropriate audit response to this challenge. Accordingly, from the report year 2009 onwards, C&AG has decided to bring out a separate volume titled "Report of the Comptroller and Auditor General of India on State Finances".

THE REPORT

Based on the audited accounts of the Government of Arunachal Pradesh 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 Arunachal Pradesh

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 through off-budget route.

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 Arunachal Pradesh Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collected from several sources in support of the findings.

Audit findings and recommendations

Fiscal Correction Path

Revenue surplus decreased by ₹ 361 crore in 2009-10 and fiscal deficit and primary deficit has also shown deterioration in 2009-10 relative to the previous year. The reason for deterioration in fiscal deficit is mainly due to more expenditure incurred under Capital outlay. Moreover, the fiscal performance of the State vis-à-vis targets set in Fiscal Correction Path as well as Arunachal Pradesh Fiscal Responsibility and Budget Management Act and Budget indicate a dismal picture during the year.

(Paragraph 1.10)

Revenue Receipts

Central transfers comprising state's share of Central taxes and grants-in-aid from the Government of India increased by ₹ 439 crore in 2009-10, indicating that the State continued to rely on Central transfers for its revenue receipts. The total loss of revenue due to underassessment/ short levy/non-levy of taxes, etc., which was 6.70 *per cent* of the State's own resources consisting of tax and non-tax revenue during 2009-2010, indicates the presence of loopholes in resources mobilization. Pending revenue arrears constituted over 38 *per cent* of tax revenue of the State during 2009-10.

(Paragraph 1.3)

Expenditure Pattern

The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure, declined by 6.20 *per cent* in the current year, it hovered around 80 *per cent* during the period (2005-10) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, Non Plan Revenue Expenditure (NPRE) at ₹ 2560 crore in 2009-10 constituted 69 *per cent* and remained significantly higher than the normatively assessed level of ₹ 1030 crore by Twelfth Finance Commission for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE and was about 86 *per cent* during 2009-10.

(Paragraph 1.4.1.2)

Prevalence of Fiscal Deficit

The prevalence of fiscal deficit indicates continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State for the future. Fiscal liabilities stood at 49.84 *per cent* of the GSDP in 2009-10 and would further increase to 49.85 *per cent* after incorporating the contingent liabilities. However, this is within the limit of liabilities prescribed in the MTFP statement which was 70.49 *per cent* of GSDP for the year 2009-10.

(Paragraph 1.9.1)

Return on investment

The average returns on investment in Statutory Corporations, Government Companies and Co-operative Societies was almost nil during 2005-10, while the Government paid interest at an average rate of 7.47 *per cent* on its borrowings during the period. The increased fiscal liabilities accompanied by the negligible rate of return on Government investments, and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through tax and non tax sources in the ensuing years.

(Paragraph 1.6.2)

Accounting of funds transferred to State Implementing Agencies

The Central Government has transferred ₹ 672.51 crore directly to the State Implementing Agencies for implementation of various schemes/ programmes in the social and economic sectors. A system has to be put in place to ensure proper accounting of these funds and the updated information should be validated.

(Paragraph 1.2.2)

Financial management and budgetary control

There was a net savings of ₹ 2081.74 crore, after adjusting the excess of ₹ 35.13 crore from total savings of ₹ 2116.87 crore. The excess of ₹ 35.13 crore requires regularisation under Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. In many cases, the anticipated savings were either not surrendered or surrendered on the last day of the year leaving no scope for diverting these funds for other development purposes. Detailed bills were not submitted for a large amount of advances drawn on abstract contingent bills. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/surrender orders should be contained.

(Chapter II)

Financial Reporting

State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from the delay in furnishing utilization certificates for grants given by Urban Development and Panchayati Raj Department and also non-submission of information regarding utilization certificates by the Finance Department. Regarding losses and misappropriation also information is still awaited from the State Finance Department.

(Chapter III)