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 2010-11. 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 2010-11 and projections made by Thirteenth Finance Commission.

The Report

Based on the audited accounts of the Government of Mizoram for the year ending March 2011, 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 2011. 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

Revenue Receipts

Revenue receipts decreased to ₹ 2,855.37 crore in 2010-11 from ₹ 2,963.51 crore in 2009-10 (3.65 *per cent*); mainly due to decrease in Grants-in-Aid (₹ 208.34 crore) offset by increase in Tax Revenue (₹ 22.86 crore), Non Tax Revenue (₹ 20.21 crore) and Central share of Taxes (₹ 57.13 crore). The revenue receipt (₹ 2,855.37 crore) was, however, less by ₹ 398.50 crore (13.14 *per cent*) than the assessment of the State Government in its Fiscal Correction Path (FCP) (₹ 3,253.87 crore).

Revenue Expenditure and Capital Expenditure

Revenue Expenditure and Capital Expenditure increased by ₹ 553.54 crore (20.48 *per cent*) and ₹ 41.91 crore (7.32 *per cent*) respectively over the previous year. Revenue expenditure was higher by ₹ 344.01 crore (11.81 *per cent*) than the assessment made by the State Government in its FCP (₹ 2,912.23 crore). Also, Capital expenditure was higher by ₹ 226.23 crore (58.23 *per cent*) than the projection made by the State Government in its FCP (₹ 388.48 crore).

The total expenditure of the State increased from ₹ 2,184 crore in 2006-07 to ₹ 3,901 crore in 2010-11 at an annual average rate of 15.73 *per cent* and increased by 18.18 *per cent* during the current year over the previous year. Of the total expenditure during 2010-11, the revenue expenditure (₹ 3,256 crore) constituted 83.47 *per cent* while capital expenditure (₹ 615 crore) constituted 15.77 *per cent* and loans and advances (₹ 30 crore) formed 0.77 *per cent*.

The breakup of total expenditure in terms of plan and non-plan expenditure during 2010-11 reveals that while the share of plan expenditure of ₹ 1,846 crore constituted 47.32 *per cent* of the Total Expenditure, the remaining 52.68 *per cent* (₹ 2,055 crore) was non-plan expenditure. Moreover, of the increase of ₹ 600 crore in total expenditure, plan expenditure shared 57 *per cent* (₹ 342 crore) while non-plan expenditure contributed 43 *per cent* (₹ 258 crore) in 2010-11.

Funds directly transferred to State Implementing Agencies

Funds transferred directly from the Union Government to the State Implementing Agencies run the risk of poor oversight and therefore, unless uniform accounting practices are followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers. It also impacts the Fiscal Responsibility and Budget Management (FRBM) requirement of transparency in fiscal operations and thus bypasses accountability. During the current year GoI transferred ₹ 984.09 crore (approximate) directly to State Implementing Agencies for implementation of various schemes/programmes.

Fiscal liabilities

The overall fiscal liabilities of the State increased at an average annual rate of 9.05 *per cent* during the period 2006-11. During the current year, the overall fiscal liabilities of the State Government increased by ₹ 869.17 crore (23.96 *per cent*) from ₹ 3,627.69 crore in 2009-10 to ₹ 4,496.86 crore in 2010-11. The increase in fiscal liabilities was mainly due to increase in the internal debt by ₹ 286.71 crore and Public Account liabilities by ₹ 604.50 crore, offset marginally by decrease in loans and advances from GoI by ₹ 22.04 crore. The ratio of fiscal liabilities to GSDP has increased from 64.56 *per cent* in 2009-10 to 74.23 *per cent* in 2010-11. These fiscal liabilities stood at nearly 1.57 times the revenue receipts and 16.22 times of the State's own resources at the end of 2010-11.

Investment and Returns

As of March 2011, the State Government invested ₹ 19.27 crore, out of which ₹ 3.03 crore was invested in Government Companies and ₹ 16.24 crore was invested in Co-operative Societies. During the current year, State Government invested only ₹ 0.27 crore in Public Sector and other Undertakings of Government Companies, however, no dividends were received during 2010-11. As of March 2011, five Working Government Companies have registered accumulated losses of ₹ 49.20 crore.

Debt sustainability

During the current year, the sum of quantum spread and primary deficit turned negative indicating that the debt-GSDP ratio is unstable and eventually the ratio would rise. The sum of quantum spread and primary deficit at ₹ 725 crore during 2010-11 against ₹ 445 crore in 2009-10 is a negative sign indicating fiscal imbalances in the forthcoming years.

Negative resource gap indicates incremental non-debt receipts are not sufficient to cover the incremental interest liabilities and incremental primary expenditure. Weakening of resource gap from ₹ (-) 218 crore in 2009-10 to ₹ (-) 709 crore during 2010-11 indicates worsening capacity of the State to sustain the debt in the medium to long run.

Fiscal Imbalances

The large deficit in revenue account during the current year was mainly on account of decrease in revenue receipts by ₹ 108 crore (- 3.65 *per cent*) against an increase of ₹ 553 crore (20.46 *per cent*) in revenue expenditure over the previous year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased to the level of ₹ 1,019 crore in 2010-11 from fiscal deficit of ₹ 311 crore in 2009-10.

The primary surplus of ₹ 38 crore during 2006-07 showed reverse trend from 2007-08 onwards and resulted into primary deficit of ₹ 57 crore in 2009-10 and drastically increased to ₹ 914 crore during the current year.

Financial Management and Budgetary Control

The estimates of receipts and expenditure under Consolidated Fund, Contingency Fund and Public Account were prepared without adequate due diligence in observing prescribed budgetary regulations.

Non-maintenance of Budget calendar, poor verification of departmental figures etc., indicates absence of financial control. Besides, due to failure in exercising control mechanism, huge excess expenditure over budget provisions, non-utilisation of budget provisions and persistent savings etc. were noticed.

During 2010-11, an expenditure of ₹ 4,312.26 crore was incurred against the total grants and appropriations of ₹ 5,105.47 crore, resulting in savings of ₹ 793.21 crore. The overall savings were the net result of savings of ₹ 797.90 crore which were offset by excess of ₹ 4.69 crore. The excess requires regularisation under Article 205 of the Constitution of India. At the close of the year 2010-11, there were five (5) grants/appropriations in which savings of ₹ 316.88 crore (39.70 *per cent* of the total savings) occurred but no surrenders were made by the concerned departments.

Out of total provisions amounting to ₹ 278.04 crore in 38 Schemes, an amount of ₹ 230.84 crore was surrendered which included 100 *per cent* surrender in 18 Schemes amounting to ₹ 28.00 crore.

In 20 cases, as against savings of ₹ 250.28 crore, an amount of ₹ 262.53 crore was surrendered resulting in excess surrender of ₹ 12.25 crore. Injudicious re-appropriation proved excessive or insufficient and resulted in savings/excess of over ₹ 10 lakh and above in 34 sub-heads.

Financial Reporting

At the end of March 2011, out of the total amount of ₹ 2,232.38 crore drawn, an amount of ₹ 1,188.46 crore remained outstanding for want of Utilisation Certificates. The annual accounts of Mizoram Khadi Village Industries Board (MKVIB) for the year 2009-10, due for submission by June 2010, had not been furnished (March 2012). In the absence of the annual accounts, proper account/utilisation of the grants and loans disbursed to the above mentioned Autonomous Bodies remained unverified. Reasons for non-preparation/ submission of the accounts were, however, not intimated to Audit (January 2012).

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

Recommendations

Revenue Receipts: *The State Government should mobilize additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. Efforts should also be made to increase tax compliance, reduce tax administration costs, etc. The State Government should ensure that the Government of India releases all grants due to the State by taking timely action on all conditionalities that are pre-requisites to the release of such grants to the State.*

Prioritisation of Expenditure: *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. In view of the substantial increase in Revenue deficit and Fiscal deficit, there is an urgent need to apply due prudence in expenditure pattern so that the resource gap remains within manageable levels of the fiscal capability of the State.*

Debt Sustainability: *Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the Thirteenth Finance Commission to bring Fiscal Liabilities-GSDP ratio to around 25 per cent could be achieved in the next four years. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year will ensure that market borrowings are sourced optimally. A clear understanding of the maturity profile of debt payments will go a long way in prudent debt management.*

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.

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 the use of high cost borrowed funds for non-revenue generating investments through a clear and transparent guidelines.*

Financial Management and Budgetary control: *Government should put in place an effective mechanism to ensure financial* *discipline and prepare realistic budget. Budgetary controls should be strengthened in all the Government Departments where savings/ excesses persisted for last three years. Issuance of Re-appropriation/surrender orders at the end of the year should be avoided. 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 Bills within thirty days from the date of drawal of the amount.

Financial Reporting: *The Finance Department should ensure strict compliance to the codal provisions as well as its own instructions to honour Public Finance Accountability norms. The State Government should initiate regular monitoring and issue necessary instructions to the concerned Departments for furnishing the Utilisation Certificates in time. The Heads of the Departments should ensure that the departmental undertakings prepare proforma accounts and submit the same to Accountant General for audit. Departmental inquiries in misappropriation/loss cases should be expedited to bring the defaulters to book. Internal Control in all organisations should be strengthened to prevent such type of cases in future.*