

## 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 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 normative assessment made by the Finance Commission (XIII FC). A comparison has been made to see whether the State has given adequate fiscal priority to the developmental, social sector and capital expenditure and whether the expenditure has been effectively absorbed by the intended beneficiaries.*

### **The Report**

*Based on the audited accounts of the Government of Sikkim for the year ended 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 the Government of Sikkim's fiscal position as on 31 March 2011. It provides an insight into trends in committed expenditure, borrowing pattern and 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 Sikkim Government's compliance with various reporting requirements and financial rules. The report also has an appendage of additional data collated from several sources in support of the findings*

### **Audit findings and recommendations**

*The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit, etc. indicated that the State had maintained revenue surplus during the last five year period. However, while the State continued with fiscal deficit in all the five years with fluctuating trend, the primary deficit also continued to prevail. During the current year, the revenue surplus decreased whereas the fiscal and primary deficits increased as compared to the previous year.*

### **Revenue Receipts**

*The revenue receipts had shown a progressive increase upto the period 2009-10. However during 2010-11, the revenue receipts decreased by 8.26 per cent over the previous year. While 24.25 per cent of the revenue receipts during 2010-11 had come from the State's own resources comprising*

tax and non-tax, the share of Central transfers comprising State's share in Central taxes and duties increased by ₹ 150.31 crore whereas grants-in-aid from GOI had declined by ₹ 194.60 crore during 2010-11. The tax revenue exceeded the projection of TFC whereas non-tax revenue receipts was less by ₹ 66.58 crore (21.57 per cent) in comparison to TFC projections.

### **Revenue and Capital expenditure**

The overall revenue expenditure of the State increased by 10 per cent from ₹ 1,829.02 crore in 2009-10 to ₹ 2,011.92 crore in 2010-11. While revenue expenditure constituting 81.50 per cent of the total expenditure grew by ₹ 182.90 crore over the previous year, the expenditure incurred under capital head which constituted 18.27 per cent of the total expenditure decreased by ₹ 197.46 crore over the previous year.

Out of the total capital expenditure of ₹ 451.07 crore, there were 138 incomplete projects as on 31 March 2011 in which ₹ 294.16 crore were blocked, out of which 58 incomplete works (₹ 270.89 crore) were due to be completed by 31 March 2011.

Developmental expenditure of ₹ 944.80 crore in 2006-07 increased to ₹ 1,708.44 crore in 2010-11. However, its share in aggregate expenditure decreased from 72.62 per cent to 69.20 per cent during the period. The ratio of development expenditure as a proportion to aggregate expenditure had also come down by 3.45 per cent in 2010-11 as compared to the year 2007-08 which indicates that the State had given lower priority to this category of expenditure during the year 2010-11 as compared to 2007-08.

The share of committed expenditure in the

Non-Plan Revenue Expenditure was 92.56 per cent leaving meagre funds for developmental purposes.

**The State needs to accord higher priority to its developmental expenditure considering the reduction in this category of expenditure during the year 2010-11 as compared to 2007-08 and reduce its committed expenditure in the overall non-plan revenue expenditure. The State also needs to ensure timely and effective implementation of incomplete projects to avoid time and cost overrun.**

### **Funds transferred directly from the Government of India to the State implementing agencies**

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).**

### **Government investment**

**Investment of the Government money in Government Companies and Statutory Corporations was increasing year after year. However, while the return on the investment was 2.62 per cent, the Government paid an average interest rate of 9.00 per cent on its borrowings during the year.**

***The Government should ensure better value for money in investment by identifying the Companies/Corporation which are endowed with low financial but high socio-economic returns and justify if high cost borrowings are worth being channelised there. Initiatives may be taken to revive or close down or sell out the huge loss making Corporations/Companies.***

#### ***Financial management and budgetary control***

*There was an overall savings of ₹ 859.66 crore and excess expenditure of ₹ 1.59 crore against 46 Grants/Appropriations during 2010-11. This excess expenditure of 2010-11 compounded with an excess expenditure of ₹ 7.46 crore pertaining to 2007-10 requires regularisation by the Legislature under Article 205 of the Constitution of India. Out of a provision of ₹ 809.60 crore in 115 sub-heads, ₹ 654.84 crore (81 per cent) constituting 15 per cent of the total budget provision of the State were surrendered, which included cent per cent surrender in 62 sub-heads. A rush of expenditure was observed towards the end of the year. In respect of 16 Major Heads under 11 Grants and 28 major heads under 18 grants, more than 50 per cent of the total expenditure was incurred in the last month and last quarter of the year 2010-11 respectively, despite clear directions to the contrary. The Abstract Contingent Bills had not been adjusted for long periods of time. Failure to adjust these*

*bills is fraught with the risk of misappropriation and therefore needs to be monitored closely.*

***Budgetary controls should be strengthened in all the Government departments, particularly in the departments where savings/ excess persisted for last five years. Issuance of re-appropriation/ surrender orders at the end of the year should be avoided. A close and rigorous monitoring mechanism should be put in place by the DDOs to adjust the Abstract Contingent Bills within sixty days from the date the amounts are drawn.***

#### ***Financial Reporting***

*There were deficiencies in furnishing utilisation certificates in time against grants/loans received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of accounts in time. There was delay in placement of Separate Audit Reports to Legislature and arrears in finalisation of accounts by the Autonomous Bodies/Authorities. Besides, cases of misappropriation and losses indicated inadequacy of controls in the departments. An effective mechanism needs to be put in place to ensure timely placement of reports, finalisation of accounts and speedy settlement of cases relating to misappropriation and losses.*