EXECUTIVE SUMMARY

BACKGROUND

This Report on the Finances of the Government of Arunachal Pradesh is being brought out with a view to objectively assess 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. To give a perspective to the analysis, an effort has been made to compare achievements with the targets envisaged by the State Government in the Budget Estimates of 2010-11 and projections made by the Twelfth/ Thirteenth Finance Commissions.

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

THE REPORT

Chapter I is based on the audit of Finance Accounts and makes an assessment of the fiscal position of the Government of Arunachal Pradesh as on 31 March 2011. It provides an insight into the trends in committed expenditure and borrowing patterns, besides a brief account of Central Funds transferred directly to State implementing agencies through the off-budget route.

Chapter II is based on audit of Appropriation Accounts and it gives a grant-by-grant description of appropriations and the manner in which allocated resources were managed by the service delivery Departments.

Chapter III is an inventory of the compliance to various reporting requirements and financial rules by the Government of Arunachal Pradesh.

AUDIT FINDINGS AND RECOMMENDATIONS

Return to Fiscal Correction

The fiscal position of the State during 2010-11 showed significant improvement over previous years, as the State not only maintained Revenue Surplus during the last five-year period ending 2010-11, but the Revenue Surplus also reached its peak during the current year. The fiscal deficit of the State, which was persistent during 2007-10, and the primary deficit of 2008-10, turned into fiscal surplus and primary surplus during 2010-11.

Revenue Receipts

Revenue receipts during 2010-11 grew by 26.25 *per cent* (₹ 1127.22 crore) over the previous year. Tax and Non-tax Revenue receipts exceeded the normative assessment made by the XIIIth Finance Commission by around 42 *per cent* and 166 *per cent* respectively. Central transfers, comprising of the State's share of Central taxes and Grants-in-aid from the Government of India, increased by

₹ 1066.18 crore in 2010-11 and contributed to about 95 *per cent* of the incremental Revenue receipts during the year. However, the State depends mostly on resources transferred by the Central Government. The State's own resources as a percentage of the total receipts declined from its peak (25 *per cent)* in 2007-08 to its lowest (14 *per cent)* in 2010-11. This indicates that Central transfers were the key to the increase in Revenue receipts of the State.

The State should make efforts to increase its own resources and maintain Revenue Surplus in the ensuing years.

Revenue and Total Expenditure

Revenue Expenditure of the State during 2010-11 increased by ₹ 48.65 crore over the previous year and constituted 69.34 *per cent* of the total expenditure during the year. Non-plan Revenue Expenditure (NPRE) during 2010-11, though marginally decreased by ₹ 27.34 crore as compared to the previous year, exceeded the normative assessment made by the XIIIth FC by around 63 *per cent* and also the State's projection made in the Budget by 25.17 *per cent.* Committed expenditure, *viz.,* salaries, pensions, interest payments and subsidies, constituted about 59 *per cent* of the Revenue Expenditure during 2010-11.

The Government should initiate suitable measures to compress Non-plan Revenue Expenditure.

Capital and Development Expenditure

The State Government has given adequate thrust to Capital Expenditure in its budget for 2010-11, but failed to fulfill its commitment. Though Capital Expenditure during the current year increased over the previous year, this fell short of the Budget Estimates by about 12 *per cent.* Development Expenditure during 2010-11 was 9.02 *per cent* more than the previous year and also exceeded the assessment made in the Budget Estimates by 35.16 *per cent*. But only 38.59 *per cent* was utilised for Capital expenditure.

The Government should consider prioritising outlays in favour of Development Capital Expenditure.

Debt Sustainability

Prevalence of fiscal liabilities of the State over the period 2006-11, which stood at 41.98 *per cent* of the GSDP in 2010-11, appears to be quite high especially when compared with the target prescribed by the XIIIth FC, i.e., steady reduction in augmented Debt Stock of the States to less than 25 *per cent* of GDP by 2014-15. The negative resource gap during 2007-10 turned into a positive resource gap during 2010-11, indicating increasing capacity of the State to sustain debt in the medium to long run.

The State Government should endeavour to maintain a proper Debt-GSDP Ratio so that incremental non-debt receipts become adequate to cover the interest burden.

Funds transferred directly by GOI to State Implementing Agencies

Funds transferred directly to State Implementing Agencies via the off-budget route impacts fiscal responsibility and legislative requirements of transparency. In the process, there is no accountability. During the current year, the GOI transferred ₹ 1219.17 crore (approx.) directly to the State Implementing Agencies for implementation of various Schemes/Programmes without routing the amount through the State Budget.

It is imperative that a system be put in place to ensure proper accounting of these funds, and the updated information validated by both the State Government and the Accountant General.

Financial Management and Budgetary Control

During 2010-11, there was an overall savings of ₹ 2380.80 crore, which was the result of savings of ₹ 2538.44 crore offset by excess of ₹ 157.64 crore. The excess of ₹ 157.64 crore required regularisation as per Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/ excessive re-appropriations. In many cases, anticipated savings were not surrendered and reconciliation of expenditure figures was not done by Controlling Officers.

Budgetary Controls should be strictly observed to avoid deficiencies in Financial Management.

Financial Reporting

Compliance to rules, procedures and directives by State Government was unsatisfactory, as evident from the delay in furnishing Utilisation Certificates for grants given by Government Departments. Delays also figured in submission of Annual Accounts by some Autonomous Bodies. There were also instances of losses and misappropriations.

Internal Control in all the Departments/Organisations should be strengthened to prevent the above deficiencies.