Executive Summary

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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 2011-12. 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 had given adequate fiscal priority to the developmental, social sector and capital expenditure and whether the expenditure had been effectively absorbed by the intended beneficiaries.

The Report

Based on the audited accounts of the Government of Sikkim for the year ended March 2012, 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 2012. 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, it showed downward trend, the primary deficit also continued to prevail. During the current year, the revenue surplus increased as the fiscal and primary deficits decreased as compared to the previous year.

Revenue Receipts

Revenue receipts showed progressive increase from ₹ 1,497.71 crore in 2007-08 to ₹ 2,345.37 crore in 2009-10 but decreased to ₹ 2,151.70 crore in 2010-11. However, the revenue receipts increased in 2011-12 by ₹ 720.41 crore (33.48 *per cent*) compared to previous year. The State's own resources contributed 18.73 *per cent* (₹ 537.96 crore) in the revenue receipts of the State during 2011-12. The balance (₹ 2334.15 crore) was transfers from Government of India in the form of State's share of taxes and grants-in-aid contributions.

There was an increase in the State's Share of Union taxes and duties in all components as compared to the previous year by ₹ 86.66 crore. Grants-in-aid from GOI increased from ₹ 1,105.02 crore in 2010-11 to ₹ 1,722.50 crore in 2011-12. The tax revenue exceeded the projection of TFC whereas non-tax revenue receipts was less by ₹ 78.60 crore (24.36 *per cent*) in comparison to TFC projections.

Revenue and Capital expenditure

The overall revenue expenditure of the State increased by 20.76 *per cent* from ₹ 2,011.92 crore in 2010-11 to ₹ 2,429.61 crore in 2011-12. While revenue expenditure constituting 78.51 *per cent* of the total expenditure grew by ₹ 417.69 crore over the previous year, the expenditure incurred under capital head which constituted 19.90 *per cent* of the total expenditure increased by ₹ 164.69 crore over the previous year.

Out of the total capital expenditure of ₹ 615.76 crore, there were 113 incomplete projects as on 31 March 2012 in which ₹ 348.31 crore were blocked, out of which 59 works (estimated cost: ₹ 301.85 crore and actual expenditure incurred as on 31 March 2012: ₹ 180.53 crore) were due to be completed by 31 March 2012.

Developmental expenditure of ₹ 1,135 crore in 2007-08 increased to ₹ 2,285.35 crore in 2011-12. Its share in total expenditure also increased from 72.65 *per cent* to 73.85 *per cent* during the period.

The share of committed expenditure in the Non-Plan revenue Expenditure was 74.14 *per cent* leaving meagre funds for developmental purposes.

The State needs to continue to accord higher priority to its developmental expenditure 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.

Government investment

The return from investment was 'Nil' and some of the Companies/Corporations were under perennial loss. Effective steps may be taken by the State Government either to revive the units or close down the units incurring losses to avoid further financial burden on the Government.

Financial management and budgetary control

There was savings of ₹ 1,430.60 crore and excess expenditure of ₹ 0.20 crore against 46 Grants/Appropriations during 2011-12. This excess expenditure of ₹ 19.58 lakh in 2011-12 compounded with an excess expenditure of ₹ 9.05 crore pertaining to 2007-11 requires regularisation by the Legislature under Article 205 of the Constitution of India. Out of a provision of ₹ 697.77 crore in 51 subheads, ₹ 556.75 crore (80 *per cent*) constituting 10 *per cent* of the total budget provision of the State were surrendered, which included cent *per cent* surrender in 18 schemes. A rush of expenditure was observed towards the end of the year. In respect of 29 Major Heads under 20 Grants and 16 major heads under 13 grants, more than 50 *per cent* of the total expenditure was incurred in the last quarter and last month of the year 2011-12 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.