EXECUTIVE SUMMARY

BACKGROUND

This Report on Finances of the Government of Arunachal Pradesh is being brought out with a view to objectively assess the financial performance of the State during 2012-13. 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 2012-13 and projections made by the Twelfth/Thirteenth Finance Commissions.

Based on audited accounts of the Government of Arunachal Pradesh for the year ending March 2013, 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 2013. 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 gives a grant-by-grant description of appropriations and the manner in which allocated resources were managed by service delivery Departments.

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

AUDIT FINDINGS AND RECOMMENDATIONS

❖ Return to Fiscal Correction

During 2012-13, the State witnessed improvement in two fiscal parameters, *viz.,* fiscal deficit and primary deficit but the Revenue Surplus during the current year decreased by 9.80 *per cent.*

The State may need to give special attention to the fall in Revenue Surplus and maintain fiscal deficit within limits.

❖ Revenue Receipts

Revenue receipts during 2012-13 grew by 4.78 *per cent* (₹ 262.46 crore) over the previous year. Tax revenue and Non-tax revenue receipts exceeded the normative assessment made by the 13th FC by about 61.68 and 30.68 *per cent* respectively. Central Transfers, comprising of the State share of Central taxes and Grants-in-aid from the Government of India, increased by ₹ 340.10 crore in 2012-13 and contributed about 90 *per cent* of Revenue receipts during the year. However, the State primarily depends on resources transferred by the Central Government. The State's own resources as a percentage of total receipts declined from its peak (23.56 *per cent*) in 2008-09 to its lowest (10.43 *per cent*) in 2012-13. This indicated 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 2012-13 increased by ₹ 368.38 crore over the previous year and constituted 79.82 *per cent* of the total expenditure during the year. Non-Plan Revenue Expenditure (NPRE) during 2012-13, which increased by ₹ 233.54 crore as compared to the previous year, also exceeded the normative assessment made by the 13th Finance Commission by around 43.35 *per cent.* Committed expenditure, *viz.,* salaries, pensions, interest payments and subsidies, constituted about 54 *per cent* of the Revenue Expenditure during 2012-13.

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

❖ Capital and Development Expenditure

The State Government had given adequate thrust to Capital Expenditure in its budget for 2012-13, but failed to fulfill its commitment. Capital Expenditure during the current year decreased over the previous year and fell short of the Budget Estimates by about 54.25 *per cent.* Development Expenditure during 2012-13 was 10.71 *per cent* less than the previous year but exceeded the assessment made in the Budget Estimates by 35.75 *per cent*. But only 25 *per cent* was utilized for Capital expenditure.

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

❖ Debt Sustainability

Prevalence of fiscal liabilities of the State over the period 2008-13, which stood at 37.20 *per cent* of the GSDP in 2012-13, appeared to be quite high, especially when compared with the limit prescribed by the 13th FC, i.e., steady reduction in augmented Debt Stock of States to less than 25 *per cent* of GDP by 2014-15. The negative Resource Gap during 2011-12 turned into a positive Resource Gap during 2012-13, 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 ₹ 1495.22 crore (approx.) directly to 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 such funds, and the updated information validated by both the State Government and the Accountant General.

❖ Financial Management and Budgetary Control

During 2012-13, there was an overall savings of ₹ 3383.37 crore, which was the result of savings of ₹ 3446.01 crore offset by excess of ₹ 62.65 crore. The excess of ₹ 62.65 crore was required to be regularized 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 the State Government was unsatisfactory, as evident from the delay in furnishing Utilization Certificates for grants given to/by Government Departments. Delays also figured in submission of Annual Accounts by some Autonomous Bodies.

Internal Control in all Departments/Organizations should be strengthened.