

# **EXECUTIVE SUMMARY**

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### **Background**

This Report on the Finances of the Government of Sikkim is being brought out with a view to assess objectively the financial performance of the State during the year 2015-16. 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 XIV Finance Commission (XIV FC). A comparison has been made to see whether the State has given adequate fiscal priority to the developmental as well as 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 2016, 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 2016. 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 Government of Sikkim'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***

#### ***Finances of the State Government***

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 been able to maintain revenue surplus during the last five years. However, revenue surplus recorded decrease (₹ 591.29 crore) during the year as compared to the previous year. This was due to decrease in Revenue Receipts by 7.42 per cent (₹ 303.35 crore) and increase in Revenue Expenditure by 8.58 per cent (₹ 287.94 crore) during 2015-16 as compared to 2014-15. Further, fiscal deficit also increased by ₹ 244.52 crore from the previous year.

### **Revenue Receipts**

Revenue Receipt decreased by ₹ 303.35 crore (7.42 *per cent*) from ₹ 4,087.64 crore in 2014-15 to ₹ 3,784.29 crore in 2015-16. During 2015-16, 74.11 *per cent* of the Revenue Receipts were from Government of India as Central transfer in the form of State's share of taxes and grants-in-aid contributions while only 25.89 *per cent* revenue was collected from State's own sources (i.e. Tax and Non-Tax Revenue). The Tax Revenue Receipts at ₹ 566.82 crore was lower by ₹ 309.18 crore than the projection made by XIV FC. However, Non-Tax Revenue was higher by ₹ 119.99 crore.

### **Expenditure**

During 2015-16, the Total Expenditure decreased by 1.34 *per cent* from ₹ 4,363.92 crore in 2014-15 to ₹ 4,305.59 crore during 2015-16. Revenue Expenditure constituted 84.65 *per cent*, Capital Expenditure constituted 14.72 *per cent* and loans and advances constituted 0.63 *per cent* of Total Expenditure during 2015-16. The expenditure on Social and Economic Sectors, which are considered as Development Expenditure, accounted for 68.72 *per cent* in 2015-16. Capital Expenditure decreased by 35.35 *per cent* (₹ 346.73 crore) over the previous year.

*The State needs to give more priority to Capital Expenditure and ensure that it does not decrease over the years.*

### **Fiscal Correction Path**

Revenue surplus was lower than the target fixed by XIV FC, Budget proposal and projections in Five-year Fiscal Plan/Mid-Term Fiscal Plan. Fiscal deficit was 3.13 *per cent* of the Gross State Domestic Product which was within the target fixed by XIV FC and Budget proposal. However, it was higher than target prescribed in Fiscal Responsibility and Budget Management Act and Five-year Fiscal Plan/ Mid-Term Fiscal Plan. Ratio of total outstanding debt of the Government to Gross State Domestic Product was higher than the target fixed by XIV FC, Budget proposal and projections in Five-year Fiscal Plan/ Mid-Term Fiscal Plan.

### **Fiscal Liabilities**

Fiscal liabilities of the State increased by ₹ 707.58 crore (17 *per cent*) from ₹ 4,161.62 crore in 2014-15 to ₹ 4,869.20 crore in 2015-16. The growth rate of outstanding fiscal liabilities, which was 14.52 *per cent* in 2014-15, increased to 17 *per cent* in 2015-16. The buoyancy of the liabilities with respect to Gross State Domestic Product during the year was 1.81 indicating that for each one *per cent* increase in Gross State Domestic Product, fiscal liabilities grew by 1.81 *per cent*. The Debt- Gross State Domestic Product Ratio for the year was higher than the recommended target of XIV FC.

### **Investment and Returns**

The return from investments was 13.04 *per cent*. However, some of the Companies/Corporations were under recurring loss.

*State Government may review the working of the units which were incurring losses to avoid further financial burden on the Government.*

#### *Financial Management and Budgetary Control*

The State Government had not brought out a Budget Manual detailing the procedures for preparation of budget estimates, realisation of revenue, control over expenditure, etc. Against the total provision of ₹ 5,879.04 crore during 2015-16, an expenditure of ₹ 4,503.28 crore was incurred. This resulted in an unspent provision of ₹ 1,375.76 crore (23.40 per cent). Excess expenditure of ₹ 83.99 crore during 2010-11 to 2015-16 required regularisation under Article 205 of the Constitution. While supplementary provision of ₹ 158.21 crore in 28 cases was unnecessary, re-appropriation of funds in six cases was made injudiciously resulting in savings over provision. In 57 cases, ₹ 908.09 crore was surrendered on the last two working days of the financial year. An amount of ₹ 68.66 crore drawn during 2011-16 as advances remained unsettled distorting the amount of expenditure being shown as such.

*A Budget Manual should be prepared immediately enumerating detailed procedures for better financial management.*

*The Budget should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided.*

#### *Financial Reporting*

During the year 2015-16, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Accountant General.

However, the practice of not furnishing Utilisation Certificates in time against grants received, not furnishing of detailed information about financial assistance given to various Institutions and not submitting of accounts by 22 Autonomous Bodies/Authorities in time indicated that financial rules were not complied with. There were also delays in placement of Separate Audit Reports to Legislature.

*There is a need to ensure that the Audit Reports of the Autonomous Bodies are placed in the Legislature on time and Utilisation Certificates are submitted by recipient of grants within the prescribed time.*