# EXECUTIVE SUMMARY

# Executive Summary

## The Report

Based on the audited accounts of the Government of Arunachal Pradesh for the year ending March 2020, this Report provides an analytical review of the finances of the State Government. The Report is structured in five Chapters.

## Chapter I-Overview of State Finances

This Chapter provides brief profile of the State and basis of the report, structure of the Government accounts, Budgetary processes, macro-fiscal analysis of key indices and fiscal position of the State including the deficit/surplus.

## Chapter II-Finances of the State Government

This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the last five years, debt management of the State and key Public Account transactions, based on the Finance Accounts of the State.

## Chapter III- Budgetary Management

This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.

## Chapter IV- Quality of Accounts and Financial Reporting Practices

This Chapter provides an overview on the quality of accounts and compliance of the State Government in its financial reporting practices, with prescribed financial rules, procedures and directives with regard to completeness, transparency, measurement and disclosure.

## Chapter V- Functioning of State Public Sector Enterprises

This Chapter provides a 'bird eye view' on the functioning of the State Public Sector Enterprises (SPSEs). The term State Public Sector Enterprises (SPSEs) encompasses the State Government owned/ controlled Government Companies set up under the Companies Act, 2013 and Statutory Corporations setup under the statutes enacted by the Parliament and State legislature.

## Audit findings

## Overview

- The State GSDP which was ₹ 27036.64 crore during 2019-20 with a growth rate of 9.89 *per cent* over the previous year, was higher than the all India GDP growth rate of 7.21 *per cent*. Service Sector was the major contributor of GSDP during the year with 41.32 *per cent*. Agriculture was the second largest contributor with

28.06 *per cent* while Industry and Taxes on products were third and fourth respectively.

- Revenue Receipts of the State decreased by 8.07 *per cent* (₹ 1307.41 crore) over the previous year. The decrease was mainly due to decrease in States share of Union Taxes and Duties (₹ 1448.57 crore) and Grants-in-Aid (₹ 62.04 crore) which was offset by increase in Own tax Revenue (₹ 160.69 crore) and Non-Tax Revenue (₹ 42.51 crore).
- Own Tax Revenue (₹ 1228.73 crore) of the State increased by 15.05 *per cent* over the previous year (₹ 1068.04 crore). Non-Tax Revenue (₹ 651.38 crore) of the State increased by 6.98 *per cent* in comparison to the previous year (₹ 608.87 crore).
- Revenue Expenditure (₹ 12218.73 crore) decreased by 1.70 *per cent* (₹ 210.75 crore) over the previous year (₹ 12429.48 crore). The decrease was mainly due to decrease in expenditure on Social Services (₹ 216.20 crore) and Economic Services (₹ 2.28 crore) partly offset by increase on General Services (₹ 7.73 crore).
- Capital Expenditure (₹ 3693.05 crore) decreased by 35.52 *per cent* (₹ 2034.38 crore) over the previous year expenditure (₹ 5727.43 crore). It was mainly due to decrease in capital outlay under Roads and Bridges (₹ 769.62 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 238.24 crore), Other Administrative Services (₹ 221.90 crore) and Public Works (₹ 198.98 crore) *etc*.
- Although the State had managed to achieve surplus on Revenue Account during the last five years, the Revenue Surplus (₹ 2669.82 crore) during the year decreased by 29.12 *per cent* (₹ 1096.66 crore) over the previous year (₹ 3766.48 crore).
- State was able to reduce Fiscal Deficit by 47.76 *per cent* (₹ 943.81 crore) as compared to previous year.
- The State was able to meet the projections made under Arunachal Pradesh FRBM Act regarding Revenue Surplus, but could not manage to achieve the ceiling prescribed for Fiscal Deficit-GSDP ratio (3.82 *per cent*) and Outstanding Debt-GSDP ratio (44.87 *per cent*).

**(Chapter I)**

## Recommendations

The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2019-20 by focusing on other potential areas, apart from SGST to secure a sustained increase in Own Tax Revenue collection.

The State Government needs to increase its Capital Expenditure and give more impetus to asset creation for sustained economic growth.

The State Government may take measures to keep the Fiscal Deficit-GSDP ratio and Outstanding Debt GSDP ratio under the ceilings prescribed in the Arunachal Pradesh FRBM Act through prudent financial management.

## Finances of the State Government

- Own Tax Revenue (₹ 1228.73 crore) of the State increased by 15.05 *per cent* over the previous year (₹ 1068.04 crore). Non-Tax Revenue (₹ 651.38 crore) of the State increased by 6.98 *per cent* in comparison to the previous year (₹ 608.87 crore).
- During 2019-20, the Central tax transfers decreased by ₹ 1448.57 crore (13.88 *per cent*) over the previous year from ₹ 10436.14 crore to ₹ 8987.57 crore, adversely impacting the total Revenue Receipts of the State during the year.
- Both Revenue and Capital Expenditure decreased by ₹ 210.75 crore (1.70 *per cent*) and ₹ 2,034.38 crore (35.52 *per cent*) respectively over the previous year. Revenue expenditure, which is in the nature of current consumption, accounted for 77 *per cent* of the State's total expenditure during 2019-20, leaving only 23 *per cent* for infrastructure and asset creation.
- Against Budget allocation of Capital Expenditure of ₹ 8006.72 crore, the State could spend 46.12 *per cent* (₹ 3693.05 crore) of the allocation in the Budget. This indicates that State Government did not make sustained efforts to utilise the outlay for creation of capital assets, which would have a bearing on the long term economic growth of the State.
- During 2015-2020, out of ₹ 1322.95 crore recommended by the XIV FC for grants to Local bodies, the State received ₹ 859.28 crore (64.95 *per cent*) leading to a shortfall of ₹ 463.67 crore.
- Though, the State had revenue surplus consistently during the period 2015-16 to 2019-20, the revenue receipts decreased during the current year. Though, the State has done well to augment its tax revenue by expanding its tax base and collecting more from GST, the State's own resources constituted only around 13 *per cent* of the total revenue receipts during 2019-20. This indicated heavy dependence of the State on Government of India funds, which contributed ₹ 13,008.44 crore of the total receipts of ₹14,888.55 crore in 2019-20.
- Under National Pension System, against contribution of ₹ 369.88 crore of the State Government employees, the State Government contributed ₹ 220.68 crore only during 2015-20, resulting in a shortfall of ₹ 149.20 crore in the matching share of the State Government. Further, the State Government was yet to transfer to ₹ 136.08 crore to NSDL till the end of 31 March 2020. The State Government has also created avoidable interest liability of ₹ 10.72 crore on funds not transferred to NSDL. The shortfall/ non-contribution of funds are liabilities of the State Government, which need to be discharged promptly.
- During 2019-20, the Government had invested ₹ 250.93 crore in Government Companies, Co-operative Bank, Societies, *etc.* The average return on this investment was ***Nil*** in the last five years while, the Government paid an average interest rate ranging from 5.93 to 7.28 *per cent* on its borrowings during 2015-20. Out of the six working Government Companies, four companies had accumulated losses of

₹ 29.10 crore and two companies had accumulated profits of ₹ 36.61 crore as per their latest finalised accounts.

- The State did not maintain the details of its investment in capital projects, as well as the status of these projects along with the liabilities likely to arise from delays in completing these projects.
- The Government incurred an expenditure of ₹ 846.98 crore on 101 projects, which remained incomplete and the resources required for completing these works were not made available. Of these, 23 projects in which an expenditure of ₹ 433.74 crore was incurred and remained incomplete, were prior to 2014-15.

**(Chapter II)**

## Recommendations

Decrease of Central tax transfers in long term would negatively affect the overall health of State's finances, which would also slowly put pressure on the existing revenue surplus and other key fiscal parameters. Thus, the State Government needs to address these concerns with the appropriate authorities for stable flow of Central transfers for long term.

The State needs to plan adequately for rolling out its major policy initiatives and ensure that adequate capacities are developed for consumption of capital expenditure for spending allocated funds for creation of durable assets.

The State Government needs to adhere to the prescribed procedure for accounting for the NPS transactions scrupulously. It should ensure that Government contribution relating to NPS is fully matched with that of the employees' contribution and that the funds are transferred to NSDL in a timely manner to avoid unlimited liability on the State exchequer. This would also provide an assurance to the pensioners about the returns on their investment.

The Government may review the contributions to the Consolidated Sinking Fund prudentially.

The Government may consider reviewing the continuance of loss-making companies from the perspective of their public utility, else improve/turnaround their performance for positive financial results.

The Government needs to maintain an accurate database with regard to the capital invested in projects which are at various stages of completion and incomplete for several years. It may review its commitment to these and liabilities arising out of inordinate delays and take necessary steps to ensure completion of these projects.

## Budgetary Management

- Against the total budget provision of ₹ 23,487.10 crore, Departments incurred an expenditure of ₹ 16,281.40 crore during 2019-20, resulting in overall savings of ₹ 7205.70 crore, which stood at 31 *per cent* of total grants and appropriations. This shows poor financial management by the State.

- In 18 Schemes under 16 Grants, Departments incurred an expenditure of ₹212.34 crore during 2019-20, without any budget provision, Supplementary Demands or re-appropriation orders, which is in violation of financial regulations and without the authority of the Legislature.
- During 2019-20, Supplementary grants of ₹ 119.51 crore (₹ 10 lakh & more in each case) provided in 19 grants proved unnecessary as the expenditure did not come up to the level of original provision, indicating that Supplementary grants were provided in an ad-hoc manner.
- In 67 cases, savings exceeded ₹ one crore or by more than 20 *per cent* of total provision during 2019-20. Out of these, 100 *per cent* savings occurred in one Grant viz. Other General, Social and Community Services under Capital voted. Further, there were persistent savings in 16 Grants (₹ one crore & by 10 *per cent* or more) during the last five years 2015-20, indicating lack of systemic and closer budget review by the Government.
- Savings during the year accounted for about a third of the budget. However, the Controlling Officers did not surrender the funds on time. Departments were not cautioned against persistent savings; nor were their budgets varied in accordance with their ability to absorb the allocations.
- During 2019-20, there were excess over provisions in five Grants/ Appropriations amounting to ₹ 15.76 crore. In addition, excess expenditure amounting to ₹ 3179.78 crore pertaining to the years from 1986-87 to 2018-19, are pending for regularisation. Such excess expenditure over budgetary allocation is a matter of concern, and dilutes legislative oversight over public funds. Government needs to view this seriously and take appropriate corrective measures for regularisation of expenditure in excess of budgetary provision.
- In 48 cases, expenditure of more than 60 *per cent* of the total expenditure for the year 2019-20 was incurred in the last quarter of 2019-20. Of these, in 20 cases, 100 *per cent* of the expenditure was incurred in the last quarter of 2019-20, in breach of financial propriety and lack of adequate planning for spending allocated funds.

**(Chapter III)**

## Recommendations

Savings of budgetary provisions are reflective of inability of the Department to spend the allotted fund. The Government may monitor closely persistent savings and non-surrender of funds by Departments and ensure that budgetary provisions are made for prioritised developmental scheme/projects for a more impactful expenditure.

Excess of expenditure over budgetary provisions under different grants is a serious lapse against legislative control. Departments which had incurred excess expenditure persistently should be identified to closely monitor their progressive expenditure so that they seek supplementary grants/re-appropriations in time.

The State Government needs to ensure better management of budgeted funds through re-appropriations.

Supplementary grants should be provided in such grants only after proper scrutiny and realistic assessment of requirements to avoid under or over spending by the concerned departments.

Rush of expenditure is a breach of financial propriety leading to wasteful and unplanned expenditure. The Government should strengthen monitoring mechanism in each department to regulate fund flow and their utilisation on quarterly basis to avoid rush of expenditure at the fag end of the financial year.

## Quality of Accounts and Financial Reporting Practices

- Deputy Director of School Education, Longding parked Scheme funds of ₹ 0.57 crore outside the Government Account, in Savings Bank Account.
- 133 Utilisation Certificates (UCs) in respect of grants aggregating ₹ 887.28 crore given to Departments of the State Government during the period up to March 2020 were not submitted to the Accountant General. Non submission of UCs is fraught with the risk of fraud and misappropriation of funds.
- During 2019-20, ₹ 2.61 crore was drawn through 84 Abstract Contingent (AC) Bills and ₹ 4.14 crore drawn through 53 AC Bills drawn prior to 2019-20 was also outstanding. Against this, 120 Detailed Countersigned Contingent (DC) Bills for ₹ 6.46 crore, were awaited for submission of as on 31 March 2020. Non-adjustment of advances for long period is fraught with the risk of misappropriation and booking of expenditure without supporting documents.
- The State Government classified ₹ 620.62 crore as Receipts under Minor Head 800–Other Receipts constituting 33.01 *per cent* of Tax and Non-Tax Receipts. Similarly, the State booked expenditure of ₹ 6036.88 crore under Minor Head 800–Other Expenditure constituting 37.94 *per cent* of total expenditure, during 2019-20. This rendered the Accounts opaque/ non-transparent.
- During the financial year 2019-20, there were delays in rendition of monthly accounts ranging from 01 to 125 days by the Treasuries, 01 to 140 days by the Public Works Divisions and 01 to 144 days by the Forest Divisions respectively.

**(Chapter IV)**

## Recommendations

State Government may enforce compliance to Financial Rules by disbursing officers to ensure that funds are drawn from the treasury only for immediate disbursement.

The Government may ensure timely submission of all Utilisation Certificates due and particularly those relating to Central Schemes so that they receive sanctioned funds from the GoI in a time bound manner.

State Government may ensure timely submission of utilisation certificates by the recipients of grants and of DCC Bills within the prescribed timeline as required under the Rules.

The Finance Department should, in consultation with the Principal Accountant General, conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate detailed /object heads of account.

The State Government needs to expedite computerisation of treasuries in the State and ensure rendition of accounts by all the account rendering authorities to the Principal Accountant General on a timely basis, to manage the State Budget effectively.

## Functioning of State Public Sector Enterprises

- As on 31 March 2020, the State of Arunachal Pradesh had total seven SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2020, there were differences in the figures of State's investment in Equity (₹ 10.49 crore) and Loan (₹ 27.87 crore) of SPSEs as per State Finance Accounts *vis-à-vis* records of SPSEs.
- During 2019-20 the State Government has provided budgetary support of ₹ 4.79 crore to two SPSEs in the form of Grants/subsidy. The recipients of the budgetary assistance were Arunachal Pradesh Forest Corporation Limited (₹ 2.60 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹ 2.19 crore). The State Government did not provide equity or loan assistance to any SPSE during 2017-20.
- During 2019-20, out of six working SPSEs, four SPSEs earned profits (₹ 6.07 crore) as per their latest finalised accounts. Further, the accumulated losses (₹ 27.29 crore) of three working SPSEs had completely eroded their paid-up capital (₹ 9.64 crore).
- As on 30 September 2020, all six working SPSEs had a total arrear of total 46 Accounts ranging from one to 20 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (20 Accounts) and Arunachal Pradesh Forest Corporation Limited (14 Accounts).

**(Chapter V)**

## Recommendations

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts *vis-à-vis* SPSE records in a time-bound manner.

Accumulation of huge losses by three out of six working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.

The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.