

EXECUTIVE SUMMARY

The Report

This Report provides an analytical review of the finances of the State Government based on the audited accounts of the Government of Nagaland for the year ending 31 March 2020. The Report is structured in five Chapters.

Chapter I-Overview of State Finances

This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/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.

The Report has nine appendices containing additional data collated from several sources in support of the audit observations.

Audit Findings:

Overview

The State's GSDP increased by ₹ 3,227.79 crore (11.82 *per cent*) from ₹ 27,283 crore in 2018-19 to ₹ 30,508 crore in 2019-20. During the last five years, there was a steady increase in GSDP from ₹ 19,524 crore in 2015-16 to ₹ 30,508 crore in 2019-20.

The GSDP growth rate for Nagaland (11.82 *per cent*) was higher than the all India GDP growth rate (7.21 *per cent*) in 2019-20. Tertiary Sector was the major contributor of GSDP during the year with 56 *per cent*. Primary Sector was the second largest contributor with 30 *per cent* while Secondary Sector (12 *per cent*) and Subsidies and Taxes (two *per cent*) were third and fourth respectively.

The State's Revenue Receipts (₹ 11,423.29 crore) decreased by 0.12 *per cent* (₹ 14.12 crore) over the previous year (₹ 11,437.41 crore), mainly due to decrease in State's share in Union Taxes and Duties (13.85 *per cent*).

The State's Own Tax Revenue (₹ 958.23 crore) increased by 13.21 *per cent* over the previous year (₹ 846.43 crore). State's share of Union Taxes and Duties (₹ 3,267.08 crore) in comparison to the previous year (₹ 3,792.41 crore) decreased by ₹ 525.33 crore (13.85 *per cent*).

Revenue Expenditure was ₹ 11,637.02 crore and it increased by 6.57 *per cent* (₹ 717.04 crore) over the previous year (₹ 10,919.98 crore).

The State's Revenue Surplus during the last four years turned into Revenue Deficit, which was ₹ 213.73 crore for the year, mainly due to decrease in Revenue Receipts (0.12 *per cent*) and increase in Revenue Expenditure (6.57 *per cent*).

Capital Expenditure which was ₹ 1,206.32 crore for the year, decreased by 24.39 *per cent* (₹ 389.24 crore) over the previous year's expenditure (₹ 1,595.56 crore). It was mainly due to decrease in capital outlay under General Services (60.49 *per cent*) and Economic Services (31.04 *per cent*).

The State's Total Expenditure for the year was ₹ 12,852.60 crore, which increased by three *per cent* (₹ 331.79 crore) over the previous year (₹ 12,520.81 crore). It was mainly due to increase in Revenue Expenditure (₹ 717.04 crore) offset by decrease in Capital Expenditure (₹ 389.24 crore).

The State's Fiscal Deficit (₹ 1,428.22 crore) increased by 31.96 *per cent* (₹ 345.90 crore) as compared to previous year (₹ 1,082.32 crore). The Government failed to meet the projections made under Nagaland FRBM Act during the year as it could not achieve surplus on Revenue Account and the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were above the ceilings prescribed under the Act.

Due to short contribution to the National Pension scheme (NPS) and misclassification of expenditure, the Revenue Deficit was understated by ₹ 33.80 crore and fiscal deficit by ₹ 30.51 crore.

(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 have a sustained increase in Own Tax Revenues.

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

The State Government needs to make efforts to achieve the projections on major fiscal parameters, made in the Nagaland FRBM Act through prudent financial management.

Finances of the State Government

The fiscal position of the State is viewed in terms of three key fiscal parameters – Revenue Deficit/ Surplus, Fiscal Deficit/ Surplus and primary deficit/surplus.

During 2019-20, the State had a Revenue deficit of ₹ 213.73 crore which was 0.70 *per cent* of GSDP. Fiscal deficit was ₹ 1,428.22 crore during 2019-20 which was 4.68 *per cent* of GSDP and primary deficit was ₹ 614.48 crore, 2.01 *per cent* of GSDP.

Revenue Receipts were ₹ 11,423.29 crore during 2019-20, which decreased by ₹ 14.12 crore (0.12 *per cent*) compared to the previous year. During the current year, State's Own Tax and Non-Tax Revenue increased by ₹ 112 crore (13.24 *per cent*) and ₹ 84 crore (32.94 *per cent*) respectively over the previous year. Grants-in-Aid from GoI increased by ₹ 315.36 crore (4.82 *per cent*) while State's Share of Union Taxes and Duties decreased by ₹ 525.33 crore (13.85 *per cent*) as compared to the previous year.

Revenue Expenditure accounted for 90.54 *per cent* of total expenditure during the current year. Committed expenditure like salary and wages, pension, interest payments steadily increased during the last five-year period 2015-20. The Committed Expenditure during the year 2019-20 was 68.93 *per cent* of the Revenue Receipts and 67.66 *per cent* of the Revenue Expenditure.

Under National Pension System (NPS), the State Government short contributed ₹ 30.51 crore resulting in understatement of revenue and fiscal deficit to that extent. Further, as on 31 March 2020, ₹170.35 crore were outstanding under NPS, with the State Government and had not been transferred to NSDL, creating avoidable outstanding financial liabilities under the Scheme.

Capital Expenditure is the expenditure for creation of assets of permanent and material character. Capital Expenditure (₹ 1,206 crore) decreased by 24.44 *per cent* during 2019-20 compared to the previous year and stood at nine *per cent* of the total expenditure during the year. There were 399 projects lying incomplete as on 31 March 2020 for which ₹ 1,309.30 crore had been expended. There was cost overrun of ₹ 153.68 crore on these incomplete projects as on 31 March 2020.

The State's share of expenditure on Health (5.38 and 5.20 *per cent* during 2015-16 and 2019-20 respectively) was lower than the averages of North Eastern & Himalayan States (5.95 and 6.19 *per cent* during 2015-16 and 2019-20 respectively). Similarly, the State's share of expenditure on Education (14.79 and 12.92 *per cent* during 2015-16 and 2019-20 respectively) as proportion of Aggregate Expenditure was less

than that of the averages of North Eastern & Himalayan States (18.32 and 17.42 *per cent* during 2015-16 and 2019-20 respectively).

As per Finance Accounts 2019-20, the State Government invested ₹ One crore as equity in Government Company (Nagaland State Mineral Development Corporation, Limited). As on 31 March 2020, whereas the State Government made investment of ₹ 295.17 crore in Government Companies, Statutory Corporation, Co-operative Societies and Joint Stock Companies, the return on investments was a meagre ₹ 2.80 crore by way of dividends during the year.

The State had outstanding guarantees of ₹ 174.96 crore as on 31 March 2020.

The outstanding Public Debt rapidly increased from ₹ 6,736.24 crore (14.26 *per cent*) from 2015-16 to ₹ 9,118.09 crore (35.36 *per cent*) in 2019-20 whereas the Debt/GSDP ratio decreased from 34.50 *per cent* to 29.89 *per cent* during the same period. The outstanding Public Debt was ₹ 8,115.52 crore during 2018-19, which increased by ₹ 1,002.57 crore (12.35 *per cent*) compared to the previous year. About nine to ten *per cent* of the revenue receipts were used by the State for payment of interest on the outstanding Public Debt and the average rate of interest ranged between 6.15 *per cent* to 7.29 *per cent* during last five-years period from 2015-16 to 2019-20.

Maturity profile of outstanding stock of Public Debt as on 31 March 2020 indicates that out of Outstanding Public Debt of ₹ 9,118.09 crore, 47.25 *per cent* of debt needs to be repaid within seven years.

(Chapter 2)

Recommendations

The State Government needs to give greater focus on development expenditure by steadily increasing its Capital expenditure on identified infrastructure gaps in a planned manner with periodical review and monitoring mechanism at the highest level of administration.

The State Government would do well by increasing its expenditure on Health and Education to compare favourably with NE Region States.

To avoid possible future liabilities under NPS, the State Government needs to fulfil their obligation by releasing arrears of its contributions and transferring the outstanding funds already accumulated, to NSDL for management of the NPS.

The State Government may seriously review the functioning of the Corporations, Companies and Societies to ensure returns on their investments and consider either revival or closure of non-functional units, in a time bound manner.

The State Government may ensure that mobilised debt resources are used adequately for incurring capital expenditure for creation of assets. The increasing trends of Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments. Own revenues need to be augmented to meet the interest on debt liabilities.

Budgetary Management

During 2019-20, against the total budget approved by the State Legislature of ₹ 22,496.42 crore (Original: ₹ 18,026.11 crore *plus* Supplementary: ₹ 4,470.31 crore), Departments incurred an expenditure of ₹ 19,733.64 crore, leaving a savings of ₹ 2,762.78 crore (12.28 *per cent* of the total budget). Moreover, Planning and Machinery Department (Grant No. 27) was not cautioned against persistent savings; nor were their budgets varied in accordance with their ability to absorb the allocations.

At the beginning of the year 2019-20, there was an outstanding excess expenditure of ₹ 723.70 crore under five Grants (pertaining to the year 2014-15 to 20118-19) which requires regularisation as per the Article 205 of the Constitution of India. Out of excess expenditure of ₹ 723.70 crore to be regularised, ₹ 204.64 crore was regularised, leaving a balance of ₹ 519.06 crore during 2019-20. Further, there was an excess expenditure of ₹ 197.95 crore during 2019-20 which also requires regularisation. During the year 2019-20, an expenditure of ₹ 37.26 crore was incurred without budget provision.

Supplementary Grants/ Appropriations were obtained without adequate justification, and funds were expended without budgetary provision. Despite flagging this issue every year over the last several years, the State Government had failed to take corrective measures in this regard.

(Chapter 3)

Recommendations

The State Government may identify Departments with persistent savings and closely monitor them, so that funds are reallocated based on priorities.

Departments, which had incurred excess expenditure persistently should be identified to closely monitor their progressive expenditure and advised to seek supplementary grants/re-appropriations in time.

The Finance Department may provide supplementary grants only after proper scrutiny and realistic assessment of requirements of the concerned Departments, to avoid under or over spending by them.

Excess expenditure pending regularisation, may be regularised by obtaining legislative approval.

Quality of Accounts & Financial Reporting Practices

During the year 2019-20, 91 grants involving ₹ 77.61 crore were provided to 20 Departments for which Utilisation Certificates (UCs) were due for submission during the year 2020-21. As on March 2020, there are 104 UCs worth ₹ 378.59 crore which are due for submission for periods pertaining up to 2018-19. Pending UCs violate prescribed financial rules and directives, and reflects poor monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with risk of misappropriation of funds. The State would also lose out on central funds for want of UCs not submitted.

There were 379 Abstract Contingent (AC) Bills involving ₹ 548.69 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2020. Out of these, 125 AC bills amounting to ₹ 96.22 crore pertained to the year 2019-20. The non-adjustment of AC Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

During the year, expenditure of ₹ 519.36 crore under 60 Revenue and Capital Major Heads, constituting about 4.04 *per cent* of total expenditure of ₹ 12,843.34 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹ 381.77 crore under 47 Revenue Major Heads, constituting about 3.34 *per cent* of the total Revenue receipts of ₹ 11,423.29 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads. Indiscriminate operation of omnibus Minor Head 800 – Other Expenditure affected transparency in financial reporting and obscured proper analysis of allocative priorities and quality of expenditure.

The State Government notified (August 2011) the enforcement of Levy and Collection of Cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. At the end of 2019-20, a total of 30,334 workers were registered with the Nagaland Building and Other Construction Workers' Welfare Board (NBOCWWB). The NBOCWWB received ₹ 23.46 crore during the year 2019-20 and expended ₹ 12.66 crore (Administrative expenses: ₹0.47 crore, Welfare schemes: ₹ 12.19 crore).

During the year 2019-20, Public Works Divisions were the major units that delayed the rendition of monthly accounts. Delayed rendering of accounts by the account rendering units/ authorities distorted the accurate depiction of monthly transactions of the State and impacted effective budgetary management.

A total of 165 Annual Accounts in respect of 22 Bodies/Authorities due up to 2019-20 had not been received as of December 2020 by the Principal Accountant General (Audit), although the Annual Accounts of these Bodies were due for submission every year.

(Chapter 4)

Recommendations

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 (A&E), 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.

Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and

departmentally run undertakings in order to assess their financial position. Persistently defaulting bodies may be given further financial assistance by the State Government only on submission of final accounts.

The State Government should ensure that the Controlling Officers render the monthly accounts in time to the AG (A&E) in the interest of financial discipline and better budget management.

Functioning of State Public Sector Enterprises

As on 31 March 2020, the State of Nagaland had total six SPSEs (all Government companies), which included one non-working SPSE.

The investment of the State Government (capital and long-term loans) in SPSEs as per the State Finance Accounts, 2019-20 was ₹ 110.23 crore as against the investment of ₹ 35.15 crore as per the records of SPSEs. Thus, there was a difference of ₹ 75.74 crore (Equity: ₹ 75.41 crore and Loan: ₹ 0.33 crore) in the investment figures as per two sets of records. The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in a time-bound manner.

As per the SPSE records, the State Government has provided budgetary support of ₹ 27.90 crore to SPSEs during 2019-20, in the form of Loans (₹ 3.41 crore) and Grants/ subsidy (₹ 24.49 crore). The major recipients of budgetary support in 2019-20 were Nagaland Handloom and Handicrafts Development Corporation Limited (Grant: ₹ 9.74 crore), Nagaland State Mineral Development Corporation Limited (Grant: ₹ 9.29 crore) and Nagaland Industrial Development Corporation Limited (Loan: ₹ 3.41 crore and Grants: ₹ 0.80 crore).

During 2019-20, all the five working SPSEs incurred losses aggregating ₹ 6.03 crore. Further, the accumulated losses of four working SPSEs (₹ 67.41 crore) had completely eroded their paid-up capital (₹ 26.03 crore).

As on 30 September 2020, the five working SPSEs had an arrear of total 21 Accounts ranging from two to 10 years. The highest pendency of accounts pertained to Nagaland Handloom & Handicrafts Development Corporation Limited (10 Accounts).

(Chapter 5)

Recommendations

The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures as per State Finance Accounts vis-à-vis the records of the SPSE in a time-bound manner.

Accumulation of huge losses by four out of five working SPSEs had eroded public wealth, which is a cause of concern and the State Government may 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 may ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.