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1 The Report

Based on the audited accounts of the Government of Arunachal Pradesh for the year ending March 2021, 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 process, macro-fiscal analysis of key indices and fiscal position of the State including the Deficit/ Surplus.

Chapter II Finances of the State

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 period from 2016-17 to 2020-21, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.

Chapter III Financial Management and Budgetary Control

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 comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

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 of State Finances

The State GSDP was ₹28,721.36 crore during 2020-21 with a growth rate of 4.91 *per cent* over the previous year which was higher than the growth rate of all India GDP. Service sector was the major contributor of GSDP during the year with 40.66 *per cent*. Agriculture was the second major contributor with 29.22 *per cent* while Industry and Taxes on products were third and fourth contributors with 25.80 and 4.32 *per cent* respectively.

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The State had managed to achieve surplus on Revenue account during last five years and the Revenue Surplus (₹4,036.01 crore) during the year increased by 51.17 *per cent* (₹1,366.19 crore) over the previous year (₹2,669.82 crore).

The Fiscal Deficit (₹1,086.20 crore) increased by 5.23 *per cent* (₹53.98 crore) over the previous year (₹1,032.22 crore).

The State was able to meet the projections made under Arunachal Pradesh FRBM regarding Revenue Surplus, but could not manage to achieve the ceiling prescribed for Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio.

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Recommendations

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

The State had Revenue Surplus consistently during the period 2016-17 to 2020-21 and the Revenue Receipts increased during the current year. The State has done well to augment its Non-tax Revenue by expanding its tax base. However, the State's Own Resources constituted only around 13 *per cent* of the total Revenue Receipts during 2020-21, indicating heavy dependence of the State on funds from the Government of India, which contributed ₹14,855.88 crore (87 *per cent*) of the total Revenue Receipts of ₹17,123.51 crore in 2020-21.

Both Revenue and Capital Expenditure increased by ₹868.77 crore (7.11 *per cent*) and ₹1,430.30 crore (38.73 *per cent*) respectively over the previous year. Revenue Expenditure, which was in the nature of current consumption, accounted for around 72 *per cent* of the State's Total Expenditure during 2020-21, leaving only 28 *per cent* for infrastructure and asset creation.

The State has not complied with the rules governing National Pension System (NPS). Non-observance of the rules governing NPS by the State Government is fraught with the risk of unauthorised use of funds belonging to its employees, thereby creating uncertainty in respect of the benefits due to the employees, avoidable future liability to the Government, and possible failure of the NPS itself in the State.

During the year 2020-21, there was increase in the Revenue Expenditure when compared with the previous year. The Committed Expenditure was about 46 to 53 *per cent* of Revenue Expenditure over the past five years. The high share of the Committed Expenditure in the total Revenue Expenditure indicates that the amounts available for implementing other welfare schemes, and maintenance of assets is getting reduced.

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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 ₹741.64 crore on 80 projects, which remained incomplete and the resources required for completing these works were not made available.

The Capital Expenditure during the year which is meant for creating infrastructure constituted 28.13 *per cent* of the Total Expenditure while the NE&H States was 13.03 *per cent*. The ratio of expenditure on Education and Health to the Total Expenditure firstly declined with reference to the base year and secondly was lower than that of average of NE&H States (indicating that the priority given to these sectors is not commensurate with average of NE&H States).

The growth rate of Revenue Receipts has generally outpaced the growth rate of debt during 2016-17, while in the three years from 2017-18 to 2019-20, the debt grew at a significantly faster rate than the Revenue Receipts. The maturity profile of outstanding stock of Public Debt as on 31 March 2021 indicates that out of the outstanding Public Debt of ₹ 7,707.81 crore, 47.82 *per cent* (₹3,686.17 crore) is payable within the next seven years while the remaining 52.18 *per cent* (₹4,021.64 crore) is in the maturity bracket of more than seven years.

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Recommendations

The State Government needs to shore up its resources and explore ways of harnessing the potential within the State by appropriate measures.

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 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 entire amount is transferred to NSDL in a timely manner to avoid unlimited liability on the State exchequer as well as to provide an assurance to the pensioners about the returns on their investment.

The Government needs to maintain an accurate database with regard to the Capital Invested in projects which are at various stages of completion for several years and review its commitment to these and liabilities arising out of inordinate delays in their completion.

The State Government would do well by increasing its expenditure on Health and Education to compare favorably with North Eastern and Himalayan States.

The State Government may ensure that mobilised debt resources are used adequately for incurring Capital Expenditure for creation of assets. The increasing trends of share of Committed Expenditure to the Revenue Expenditure be corrected by identifying potential wasteful expenditure and adopting economy measures across departments.

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Financial Management and Budgetary Control

Against the total budget provision of ₹25,600.80 crore, Departments incurred an expenditure of ₹18,674.05 crore during 2020-21, resulting in overall savings of ₹6,926.75 crore, which stood at 27.05 *per cent* of total grants and appropriations. This shows poor financial management by the State.

These savings may be seen in context of over estimation of Receipts of ₹21,999.20 crore by the State Government and estimation on the expenditure side being ₹25,600.80 crore during the year 2020-21. This implied that the savings were notional, as the funds were not actually available for expenditure.

The Supplementary Grant of ₹3,720.43 crore was not required as the gross expenditure was ₹3,206.33 crore more than the Original Provisions. It is pertinent to mention that Supplementary Grant was taken on 06 March 2021 and total expenditure as on February 2021 was only ₹16,442.94 crore as per monthly civil accounts submitted by the Treasuries, leaving ₹5,437.44 crore with the State Government for the remaining 25 days. With the Supplementary Grant, total funds available with the State Government were ₹9,157.87 crore which was equal to 56 *per cent* of the expenditure incurred during the first 11 months of the financial year. This was indicative of over estimation and poor financial management.

In four Grants, Departments incurred an expenditure of ₹0.92 crore during 2020-21, 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 2020-21, Supplementary grants of ₹1,096.68 crore (₹10 lakh & more in each case) provided in 12 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 61 cases, savings were ₹one crore or above during 2020-21. Out of these, there were savings of ₹10 crore and above under 14 Grants. However, no part of the savings was surrendered by the concerned department. Further, there were persistent savings in 16 Grants during the last five years 2016-21, 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 2020-21, there was excess over provisions in one Grant/ Appropriation amounting to ₹8.87 crore. In addition, excess expenditure amounting to ₹3,195.54 crore pertaining to the years from 1986-87 to 2019-20, are pending for regularisation. Such excess expenditure over budgetary allocation is a matter of concern, and dilutes Legislative

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oversight over Public Funds. Government needs to view this seriously and take appropriate corrective measures for regularisation of expenditure in excess of budgetary provision.

The substantial variations of actuals with the revised estimates indicated absence of proper care in estimating the revised estimates by the Controlling Officers concerned as envisaged in the General Financial Rules, 2017 and failure of the Finance Department (Budget).

Performance report for the year 2019-20 (Allocated ₹289.93 crore against 14 departments) was required to be incorporated in the Gender Budget of 2020-21 to ascertain the effectiveness of the schemes targeted to benefit women. It was, however, noticed that no such report was incorporated in the Gender Budget of 2020-21, due to which the actual achievement of schemes for benefit of the women could not be analysed.

The budget speech of the Finance Minister indicated allocations for different schemes both existing as well as new. However, the actual budget provisions could not be specifically made in the Detailed Demand for Grants (DDG) against many schemes mentioned in the budget speech, but only lumpsum provisions were made against the State Annual Development Agenda (SADA), and Scheme under Budget Announcement/ State Development schemes, much against the financial rules. The allocations under the SADA and Scheme under Budget Announcement were finalised and approved by the competent authority with a delay of about three months only in the month of October 2020, although the budget was operative from 01 April 2020.

It was observed that neither the State Lottery Department nor the Finance Department formulated the budget provision both for the receipts and the expenditure in respect of receipts against lottery and payout of prize money to the winners. Hence, the sale proceeds were not reported to the State Legislature.

There were delays in submission of the BEs in respect of receipts and expenditures for the years 2016-17 to 2020-21 to the Finance Department. Any delay in submission of the Budget Estimates by the Controlling Officers reduces the effectiveness of the required scrutiny by the Finance Department at the time of budget formulation. Thus, the formulation of BEs without taking the inputs from the DDOs of the respective departments could not be ruled out, which is indicative of the poor budgetary management and without accessing actual needs of the departments.

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Recommendations

The State Government may ensure that the Budget Estimates should be formulated after taking the inputs from the respective Drawing and Disbursing Officers of the departments.

The Government needs to view expenditure incurred without budget provision seriously and take appropriate corrective measures to strengthen the mechanism for strict compliance with the rules and Treasury Officer strictly adheres to the provisions regarding existence of the budget while passing of bills.

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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. 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.

The State Government may ensure to formulate/ prepare the Budget Estimates both for the receipts and expenditure against the State Lottery so as to ensure the sale proceeds and payout of prize money to the winners may be routed through the Government Accounting processes. It is also recommended that the State Government should take necessary steps to deposit the gross sale proceeds, calculated at face value of the tickets sold, to the Consolidated Fund/ Public Account of the State.

Quality of Accounts and Financial Reporting Practices

Non-submission of Utilisation Certificates (UCs) by Departments for funds drawn for specific developmental programme/ projects was violative of prescribed financial rules and directives. These point to inadequate internal controls and deficient monitoring mechanism of the State Government.

Non-adjustment of Abstract Contingent (AC) Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective Drawing and Disbursing Officers 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.

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 Proforma accounts of State Transport Services Department for the year 2017-18 onwards were not submitted as of February 2022. Consequently, corrective measures, if any, needed for ensuring accountability and improving efficiency cannot be taken on time. Besides, the delay in finalisation of accounts may also make the system vulnerable to fraud and leakage of public money.

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.

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Recommendations

The Government may ensure timely submission of Utilisation Certificates by the departments in respect of the grants released for specific purposes.

State Government may expedite the process to clear the old AC Bills and ensure timely submission of all Detailed Countersigned Contingent (DCC) Bills to adjust the outstanding Abstract Contingent (AC) Bills within the prescribed timeline as required under the Rules.

The Finance Department should, in consultation with the Principal Accountant General (Accounts), 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 Heads of Account.

State Government may ensure timely submission of accounts (Proforma Accounts) in order to assess the financial position and efficiency of the departmental undertaking of Government performing activities of quasi-commercial nature.

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.

Functioning of State Public Sector Enterprises

As on 31 March 2021, the State of Arunachal Pradesh had total seven SPSEs (all Government companies), which included one non-working SPSE. As on 31 March 2021, 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 2020-21 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 Police Housing and Welfare Corporation Limited (₹2.06 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹2.73 crore). The State Government did not provide equity or loan assistance to any SPSE during 2018-20.

During 2020-21, out of six working SPSEs, three SPSEs earned profits (₹7.68 crore) as per their latest finalised accounts. Further, the accumulated losses (₹29.17 crore) of three working SPSEs had completely eroded their paid-up capital (₹9.70 crore).

As on 30 September 2021, all six working SPSEs had total arrears of 49 Accounts ranging from 01 to 21 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (21 Accounts) and Arunachal Pradesh Forest Corporation Limited (15 Accounts).

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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, which have the responsibility to oversee the activities of the SPSEs, have to ensure that the SPSEs finalise and adopt their accounts within the stipulated period. In view of the position of arrears of accounts indicated above, the actual contribution of SPSEs to the GSDP for the year 2020-21 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.