



# **EXECUTIVE SUMMARY**



# EXECUTIVE SUMMARY

## 1 The Report

*Based on the audited accounts of the Government of Arunachal Pradesh for the year ending March 2022, this report provides an analytical review of the finances of the State Government. The report is structured in four 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 2017-18 to 2021-22, 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.*

## 2 Audit Findings

### Overview of State Finances

The State GSDP was ₹33,459.15 crore during 2021-22 with a growth rate of 12.68 per cent over the previous year which was lower than the growth rate of all India's GDP (19.51 per cent). The service sector was the major contributor to GSDP during the year with 43.31 per cent. Agriculture was the second major contributor with 31.32 per cent while Industry was the third contributor with 20.90 per cent.

The State had managed to achieve a surplus on Revenue account during last five years and the Revenue Surplus (₹5,385.00 crore) during the year increased by 33.42 per cent (₹1,348.99 crore) over the previous year (₹4,036.01 crore).

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The Fiscal Deficit (₹1,099.04 crore) increased by ₹12.84 crore over the previous year (₹1,086.20 crore).

The State was able to meet the projections made under Arunachal Pradesh “Fiscal Indicators-Rolling targets in MTFP”, regarding Revenue Surplus and ratio of Outstanding Debt to GSDP but could not manage to achieve the ceiling prescribed for the Fiscal Deficit-GSDP.

(Chapter-I)

### Recommendation

- ✓ State Government may take measures to keep the Fiscal Deficit-GSDP ratio under the ceilings prescribed in the Arunachal Pradesh “Fiscal Indicators-Rolling targets in MTFP through prudent financial management.

### Finances of the State

The State had revenue surplus consistently during the period 2017-18 to 2021-22 and the revenue receipts increased during the current year. The State has done well to augment its own resources by expanding its tax base. However, the State’s own resources constituted only around 11 *per cent* of the total revenue receipts during 2021-22, indicating heavy dependence of the State on funds from the Government of India, which contributed ₹18,817.18 crore (89 *per cent*) of the total revenue receipts of ₹21,231.64 crore in 2021-22.

Both Revenue and Capital Expenditure increased by ₹2,769.14 crore (21.08 *per cent*) and ₹1,364.98 crore (26.64 *per cent*) respectively over the previous year. Revenue expenditure, which was in the nature of current consumption, accounted for around 71 *per cent* of the State’s Total Expenditure during 2021-22, leaving only 29 *per cent* for infrastructure and asset creation.

The State has not complied with the rules governing NPS. Non-observance of the rules governing NPS by the State Government is fraught with the risk of un-authorized 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.

The State did not have a comprehensive database of its investment in capital projects in past having relevant information such as approved cost, the status of these projects, details of date of completion of the projects and liabilities likely to arise out of inordinate delays in completion of these projects.

During the year 2021-22, there was increase in the Revenue Expenditure when compared with the previous year. The committed expenditure was about 47 to 53 *per cent* of Revenue

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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.

The Capital Expenditure during the year which is meant for creating infrastructure constituted 29.05 *per cent* of the total expenditure.

In the three years from 2017-18 to 2019-20, the debt grew at a significantly faster rate than the Revenue Receipts whereas from 2020-21 to 2021-22, Revenue Receipts has been growing faster than outstanding debt.

The maturity profile of outstanding stock of Public Debt as on 31 March 2022 indicates that out of the outstanding Public Debt of ₹8,835.82 crore, 51.22 *per cent* (₹4,525.37 crore) is payable within the next seven years while the remaining 48.78 *per cent* (₹4,310.45 crore) is in the maturity bracket of more than seven years.

During 2021-22 the State Government has provided budgetary support ₹11.32 crore to three SPSEs in the form of Grants/ Subsidy. The recipients of the budgetary assistance were Arunachal Police Housing and Welfare Corporation Limited (₹2.06 crore), Arunachal Pradesh Forest Corporation Limited (₹2.78 crore) and Hydro Power Development Corporation of Arunachal Pradesh Limited (₹6.48 crore).

During 2021-22, out of six working SPSEs, three SPSEs earned profits (₹5.83 crore) as per their latest finalised accounts. Further, the accumulated losses (₹34.53 crore) of three working SPSEs had completely eroded their paid-up capital (₹9.70 crore).

*(Chapter-II)*

### **Recommendations**

- ✓ The State Government needs to shore up its resources and explore ways of harnessing the potential within the State by appropriate measures to reduce dependency on GoI.
- ✓ 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 future liability on the State exchequer as well as to provide an assurance to the employees 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.

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- ✓ 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.
- ✓ Accumulation huge losses by three out of six 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.

### Financial Management and Budgetary Control

Against the total budget provision of ₹27,920.96 crore, Departments incurred an expenditure of ₹22,934.60 crore during 2021-22, resulting in overall savings of ₹4,986.36 crore, which stood at 17.86 *per cent* of total grants and appropriations. This shows poor financial management by the State.

These savings may be seen in context of budget provisions on the expenditure side being ₹27,920.96 crore during the year 2021-22 against the estimated Receipts of ₹21,679.37 crore. This implied that the savings were notional, as the funds were not actually available for expenditure.

The Supplementary Grant of ₹5,607.96 crore taken on 14 March 2022 was not required as the total expenditure as on February 2022 was only ₹13,882.11 crore (as per monthly civil accounts submitted by the Treasuries) leaving ₹8,430.89 crore with the State Government for the remaining 17 days. With the Supplementary Grant, total funds available with the State Government were ₹14,038.85 crore which was equal to 101.13 *per cent* of the expenditure incurred during the first 11 months of the financial year. This is indicative of poor financial management.

In four Grants, Departments incurred an expenditure of ₹272.92 crore during 2021-22, 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 2021-22, Supplementary grants of ₹94.02 crore (₹10 lakh and 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. Further, in respect of 64 cases, Supplementary provisions aggregating ₹5,421.07 crore proved excessive by ₹2,512.84 crore under 62 cases and inadequate by ₹11.63 crore under two cases.

There was misclassification of ₹227.90 crore towards Revenue expenditure as Capital Expenditure and *vice-versa*.

In 79 cases, the re-appropriation was not made after realistic assessment as the expenditure was less/ more than the final appropriated amount pointing to inadequacy of the

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re-appropriation ordered. The re-appropriation proved inadequate as the expenditure finally was more than the total grant available in eight cases by ₹62.21 crore. Similarly, re-appropriation was injudicious in 71 cases as the expenditure fell short of the available grant proving the entire re-appropriation unnecessary.

In 59 cases, savings (₹one crore or above in each case) during 2021-22 was ₹2,057.63 crore. Out of these, there were savings of ₹10 crore and above under 20 Grants however no part of the savings was surrendered by the concerned departments. Further, there were persistent savings in 13 Grants during the last five years 2017-22, indicating lack of systemic and closer budget review by the Government.

Savings during the year accounted for about one-fifth 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.

Non-compliance with the rules not only deprives other needy Departments of resources, but also defeats the very objective of achieving efficiency in budget management, which may be an impediment to the speedy development of State as in respect of 140 cases, anticipated savings were not surrendered by the prescribed date.

During 2021-22, there was excess over provisions in 16 Grants/ Appropriations amounting to ₹16.01 crore. In addition, excess expenditure amounting to ₹3,204.41 crore pertaining to the years from 1986-87 to 2020-21, 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.

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 2020-21 (Allocated ₹7,118.40 crore against 13 departments) was required to be incorporated in the Gender Budget of 2021-22 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 2021-22 due to which the actual achievement of schemes for benefit of women could not be analysed.

There were delays in submission of the BEs in respect of receipts and expenditures by 10 department for the year 2021-22 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

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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 assessing actual needs of the departments.

*(Chapter-III)*

### **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.
- ✓ 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.

### **Quality of Accounts and Financial Reporting Practices**

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.

Non-submission of UCs by Departments for funds drawn for specific developmental programmes/ projects and non-submission of accounts by Autonomous, Development Bodies and Authorities was violative of prescribed financial rules and directives. These point to inadequate internal controls and deficient monitoring mechanism of the State Government.

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.

As on 30 September 2022, all six SPSEs had total arrears of 50 Accounts ranging from 1 to 22 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh



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Mineral Development and Trading Corporation Limited (22 Accounts) and Arunachal Pradesh Forest Corporation Limited (16 Accounts).

*(Chapter-IV)*

### *Recommendations*

- ✓ 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 heads of account.
- ✓ The Government may ensure timely submission of Utilisation Certificates by the departments in respect of the grants released for specific purposes.
- ✓ 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.
- ✓ 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 GSDP for the year 2021-22 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.

