

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 2022. The Report is structured in four Chapters.

Chapter I-Overview of the 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.

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

Audit Findings:

Overview of State Finances

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.

GSDP increased by ₹ 1,998.63 crore (6.57 *per cent*) from ₹ 30425.11 crore in 2020-21 to ₹ 32,423.74 crore in 2021-22. During the last five years, there was a steady increase in GSDP from ₹ 24,392.96 crore in 2017-18 to ₹ 32,423.74 crore in 2021-22. GSDP positive growth rate for Nagaland (6.57 *per cent*) was lower than the all India GDP growth rate (16.85 *per cent*) in 2021-22. Service Sector was the major contributor of GSDP during the year with 59.67 *per cent*. Agriculture Sector was the second largest

contributor with 26.81 *per cent* while Industry Sector (11.21 *per cent*) and Taxes on products–Subsidies on products (two *per cent*) were third and fourth respectively.

During 2021-22, the State had a Revenue surplus of ₹ 1,634.06 crore which was 5.04 *per cent* of GSDP. Fiscal deficit was ₹ 260.52 crore during 2021-22 which was 0.80 *per cent* of GSDP and primary surplus was ₹ 671.57 crore, 2.07 *per cent* of GSDP.

Revenue Surplus increased from ₹ 375.37 crore in 2020-21 to ₹ 1634.06 crore in 2021-22, mainly due to a significant increase in Revenue Receipts (17.71 *per cent*).

Revenue Receipts (₹ 13,451.14 crore) increased by 17.71 *per cent* (₹ 2,023.71 crore) over the previous year (₹ 11,427.43 crore), mainly due to increase in Own Tax Revenue (27.22 *per cent*) and State's share in Union Taxes and Duties (43 *per cent*).

Own Tax Revenue (₹ 1,301.08 crore) increased by 27.22 *per cent* over the previous year (₹ 1,022.74 crore). State's share of Union Taxes and Duties (₹ 4,875.27 crore) in comparison to the previous year (₹ 3,409.25 crore) increased by ₹ 1,466.02 crore (43 *per cent*).

Revenue Expenditure was ₹ 11,817.08 crore and it increased by 6.92 *per cent* (₹ 765.02 crore) over the previous year (₹ 11,052.06 crore).

Capital Expenditure which was ₹ 1,893.85 crore for the year, increased by 13.27 *per cent* (₹ 221.92 crore) over the previous year's expenditure of ₹ 1,671.93 crore. It was mainly due to increase in capital outlay under Social Services (80 *per cent*).

Total Expenditure for the year, which was ₹ 13,713.54 crore, increased by 7.73 *per cent* (₹ 983.94 crore) over the previous year (₹ 12,729.60 crore). It was mainly due to increase in both Revenue Expenditure (₹ 765.02 crore) and Capital Expenditure (₹ 221.92 crore).

Fiscal Deficit (₹ 260.52 crore) decreased by 79.97 *per cent* (₹ 1,040.42 crore) as compared to previous year (₹ 1,300.94 crore). The Government was successful in maintaining Revenue Surplus as projected in FRBM Act during the year and the Fiscal Deficit-GSDP ratio and Outstanding Debt-GSDP ratio were below the ceilings prescribed under the Act.

Based on the result of examination of misclassification during post audit, the Revenue Surplus would reduce from ₹ 1,634.06 crore to ₹ 1,524.82 crore and Fiscal Deficit would increase from ₹ 260.52 crore to ₹ 343.78 crore.

(Chapter I)

Recommendations

State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2021-22 by focusing on other potential areas, apart from State Goods and Services Tax to have a sustained increase in Own Tax Revenue.

State Government needs continued efforts to achieve the projections on deficit and debt parameters, made in the Nagaland FRBM Act in the coming years.

Finances of the State Government

Revenue Receipts were ₹ 13,451.14 crore during 2021-22, which increased by ₹ 2,023.71 crore (17.71 *per cent*) compared to the previous year. During the current year, State's Own Tax Revenue increased by ₹ 278.34 crore (27.22 *per cent*), Non-Tax Revenue increased by ₹ 60.98 crore (28.50 *per cent*), Grants-in-Aid from GoI increased by ₹ 218.37 crore (3.20 *per cent*) and State's Share of Union Taxes and Duties increased by ₹ 1466.02 crore (43 *per cent*) respectively over the previous year

Revenue Expenditure (₹ 11,817.08 crore) accounted for 86.17 *per cent* of total expenditure (₹ 13,713.54 crore) during the current year. Committed expenditure (₹ 9,045.07 crore) like salary and wages, pension, interest payments steadily increased ₹ 2,947.50 crore (48.34 *per cent*) during the last five-year period from ₹ 6,097.57 crore in 2017-18 to ₹ 9,045.07 crore in 2021-22. The Committed Expenditure during the year 2021-22 was 67.24 *per cent* of the Revenue Receipts and 76.54 *per cent* of the Revenue Expenditure.

As on 31 March 2022, ₹ 202.24 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 (₹ 1,893.85 crore) increased by ₹ 221.92 crore (13.27 *per cent*) during 2021-22 compared to the previous year (₹ 1,671.93 crore) and stood at 13.81 *per cent* of total expenditure during the year. There were 383 projects lying incomplete as on 31 March 2022 for which ₹ 1,546.15 crore had been expended. There was cost over-run of ₹ 144.95 crore on these incomplete projects as on 31 March 2022 and detailed analysis of "Extension of Hotel Japfu, Kohima, Nagaland" capital locked under the incomplete project. It deviation from the original scope of work/specification by the Department led to stoppage of further funding from MDoNER and also resulted in delay in completion of the project for more than seven years from the stipulated date of completion. Expenditure of ₹ 3.48 crore incurred so far on the project proved unfruitful and the intention of Government to provide quality accommodation through extension of Hotel Japfu, Kohima remained unachieved.

The State's share of expenditure on Health (9.01 and 6.72 *per cent* during 2017-18 and 2021-22 respectively) was higher in 2017-18 and lower in 2021-22 than the averages of North Eastern & Himalayan States (6.22 and 7.25 *per cent* during 2017-18 and 2021-22 respectively). Similarly, the State's share of expenditure on Education (19.57 and 14.04 *per cent* during 2017-18 and 2021-22 respectively) as proportion of Aggregate Expenditure was higher in 2017-18 and lower in 2021-22 than the averages of North Eastern and Himalayan States (17.56 and 14.04 *per cent* during 2017-18 and 2021-22 respectively).

As per Finance Accounts 2021-22, the State Government made investment of ₹ 296.17 crore in Government Companies, Statutory Corporation, Co-operative Societies

and Joint Stock Companies, the return on investments was a meagre ₹ 0.49 crore by way of dividends during the year.

The State had outstanding guarantees of ₹ 189.96 crore which was 1.41 *per cent* of Revenue Receipts of the State (for the year) as on 31st March 2022.

The outstanding Public Debt rapidly increased by ₹ 3,602.84 crore from ₹ 7,804.57 crore in 2017-18 to ₹ 11,407.41 crore in 2021-22 whereas the Debt/ GSDP ratio increased from 32.00 to 35.18 *per cent* during the same period. During 2021-22, the outstanding Public Debt (₹ 11,407.41 crore), increased by ₹ 758.38 crore (7.12 *per cent*) compared to the previous year (₹ 10,649.03 crore). Between 6.15 and 7.50 *per cent* of the Revenue Receipts were used by the State for payment of interest on the outstanding Public Debt while the average rate of interest ranged between 7.40 and 8.40 *per cent* during last five-years period from 2017-18 to 2021-22.

Maturity profile of outstanding stock of public debt as on 31 March 2022 indicates that out of outstanding public debt of ₹ 11,407.41 crore, 48.23 *per cent* of outstanding public debt (₹ 5,502.20 crore) needs to be repaid within the next seven years while the remaining 51.77 *per cent* (₹ 5,905.21 crore) of outstanding public debt is in the maturity bracket of more than seven years.

(Chapter II)

Recommendations

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 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 non tax revenues need to be augmented to meet the interest on debt liabilities.

Budgetary Management

During 2021-22, against the total budget approved by the State Legislature of ₹ 25,644.46 crore (Original: ₹ 22,816.61 crore *plus* Supplementary: ₹ 2,827.84 crore), Departments incurred an expenditure of ₹ 21,690.85 crore, leaving a savings of ₹ 3,953.61 crore (15.42 *per cent* of the total budget).

It is indicative that the Supplementary Grant of ₹ 2,827.84 crore was not required as the gross expenditure was ₹ 1,125.76 crore less than the Original Provisions. It is pertinent to mention that Supplementary Grant was taken on 22nd March 2022 and total expenditure as on February 2022 was only ₹ 18,504.22 crore as per monthly civil accounts submitted by the Treasuries, leaving ₹ 4,312.39 crore with the State Government for the remaining 31 days. With the Supplementary Grant, total funds available with the State Government were ₹ 7,140.23 crore. This was indicative of over estimation and poor financial

management. During the year, an expenditure of ₹ 0.35 crore was incurred without budget provision which is violative of financial regulations as well as the will of the Legislature.

Thus, the 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.

There was an overall savings ₹ 3,953.61 crore which was 15 *per cent* of total Grants/ Appropriations and 18 *per cent* of the expenditure. These savings may be seen in context of estimation of Receipts of ₹ 22,451.28 crore by the State Government and estimation on the expenditure side being ₹ 25,644.46 crore during the year 2021-22. This implied that the savings were notional, as the funds were not actually available for expenditure.

At the beginning of the year 2021-22, there was an outstanding excess expenditure of ₹ 2,13.95 crore under 22 Grants (pertaining to the year 2017-18 to 2020-21) which requires regularisation as per the Article 205 of the Constitution of India.

Review of Higher Education Department (Grant No. 32) revealed persistent savings, unexplained Re-appropriation and substantial surrenders.

(Chapter III)

Recommendations

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 and Financial Reporting Practices

During the year 2021-22, 61 grants involving ₹ 81.80 crore were provided to 16 Departments for which Utilisation Certificates (UCs) are due for submission during the year 2022-23. As on March 2022, there are 149 UCs worth ₹ 316.34 crore, which are due for submission for periods pertaining up to 2020-21. 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 335 Abstract Contingent (AC) Bills involving ₹ 532.83 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2022. Out of these, 28 AC bills amounting to ₹ 22.83 crore pertained to the year 2021-22. 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 ₹ 1,415.60 crore under 47 Revenue and Capital Major Heads, constituting about 10.32 *per cent* of total expenditure of ₹ 13,713.54 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹ 283.98 crore under 40 Revenue Major Heads, constituting about 2.31 *per cent* of the total Revenue receipts of ₹ 13,451.14 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads. During 2021-22, there were 43 Major Heads (MHs) under Receipts where Minor Head 800 was operated. Out of these 43 MHs, there were 32 MHs where other specific Minor Heads were already operated. Similarly, 58 MHs under Expenditure where Minor Head 800 was operated. Out of these 58 MHs, there were 45 MHs where other specific Minor Heads were already operated. Thus, MH 800 was still operated where there was specific Minor Heads already available. 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 2021-22, a total of 14,437 workers were registered with the Nagaland Building and Other Construction Workers' Welfare Board (NBOCW WB). Out of the total available fund of ₹ 98.55 crore during the year, the NBOCW WB expended ₹ 24.22 crore. Out of total expenditure of ₹ 24.22 crore, administrative expenses were ₹ 0.95 crore, which was 3.92 *per cent* of the total expenditure and remains within the prescribed limit under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. Remaining expenditure of ₹ 23.27 crore was incurred mainly on Educational Scholarship (₹ 15.65 crore), Covid-19 Aid (₹ 3.73 crore), Tool Grant (₹ 0.67 crore) and Death Insurance (₹ 0.84 crore).

There were huge pendency in submission of accounts in respect of Autonomous Bodies/ other Authorities as well as State Public Sector Enterprises.

During the year 2021-22, Public Works and Forests 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.

(Chapter IV)

Recommendations

State Government may ensure timely submission of all utilisation certificates due 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 may take appropriate steps either to revive the two non-functional SPSEs or to wind up these SPSEs.