

EXECUTIVE SUMMARY

About this Report

This Report of the Comptroller and Auditor General of India is on the State Finances Audit Report for the year 2023-24. It provides an overview of the finances, budgetary management and quality of accounts, financial reporting practices and other matters relevant to State Finances.

This executive summary highlights the contents of this report and through snapshots of the important figures and aspects, provides insight into fiscal sustainability, performance against the budget intent, revenue and expenditure projections, the reasons for variations and its impact.

Gross State Domestic Product (GSDP) at current prices grew at a CAGR of 10.02 per cent from ₹30,023.65 crore in 2019-20 to ₹43,991.61 crore in 2023-24. During the period from 2019-20 to 2023-24, the growth rate of GSVA was higher in four years out of five years than that of GVA. During the year 2019-20, the growth rate of GSVA was significantly higher than that of GVA. Budget Outlay of the State grew at an average growth rate of 7.52 per cent from ₹23,487.10 crore in 2019-20 to ₹37,565.28 crore in 2023-24.

There was 11.01 per cent growth rate in GSDP during 2023-24, which was lower than 2022-23 (13.96 per cent). The revenue receipts grew at 15.36 per cent during 2023-24 over 2022-23 and the percentage of Revenue receipts to GSDP improved from 49.59 per cent in 2019-20 to 62.38 per cent in 2023-24. The Tax revenue (Share of Union taxes/ duties and Own tax revenue) increased by 19.64 per cent over 2022-23. The State's Own resources (Own tax revenue and Non tax revenue) increased by 13.62 per cent over the previous year. The Total expenditure (Revenue, expenditure, Capital expenditure and Loans and Advances) increased by 13.72 per cent from ₹25,528.40 crore in 2022-23 to ₹29,030.85 crore in 2023-24. Of this, Revenue expenditure increased by 18.07 per cent and Capital expenditure increased by 4.40 per cent over the previous year. Revenue surplus increased by ₹506.18 crore (7.95 per cent) over the previous year. Fiscal deficit decreased by ₹151.51 crore (8.73 per cent) over 2022-23.

Receipts and Expenditure

From 2019-20 to 2023-24, Revenue Receipts grew from ₹14,888.55 crore in 2019-20 to ₹27,441.00 crore in 2023-24 at an average growth rate of 11.66 per cent. Capital receipts also increased from ₹1,797.74 crore to ₹3,780.96 crore during this period. The share of GIA in Revenue receipts decreased from 27.01 per cent in 2019-20 to 14.20 per cent in 2023-24. State was heavily dependent on transfer from the GoI as State's own revenue contributed only 13.48 per cent of Revenue Receipts. During 2023-24, the State government received ₹3,370.58 crore for 32 Centrally Sponsored Schemes (CSS). As on 31 March 2024, an amount of ₹1,606.93 crore, including both Central and State shares, were parked in SNA bank accounts of 64 schemes.

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligation. As such it does not result in addition to the State's infrastructure and

service network. Between 2019-20 and 2023-24, Revenue expenditure increased from ₹12,218.73 crore (40.70 *per cent* of GSDP) to ₹20,564.35 crore (46.75 *per cent* of GSDP). It made up a significant portion (between 68 and 77 *per cent*) of Total expenditure during this period, growing at an average annual rate of 10.89 *per cent*.

Under the Revenue expenditure, the quantum of committed expenditure constitutes the largest share. The Committed expenditure has the first charge on the resources and consists of Interest payments, expenditures on Salaries and Wages and expenditure on Pensions. Committed expenditure hovered around 41 and 62 *per cent* of Revenue expenditure during 2019-20 and 2023-24. The Committed expenditure increased from ₹7,520.70 crore in 2019-20 to ₹8,330.78 crore in 2023-24.

In addition to Committed expenditure, inflexible expenditure decreased from ₹1,893.25 crore (12.72 *per cent* of Revenue expenditure) in 2019-20 to ₹1,120.46 crore (4.08 *per cent* of Revenue expenditure) in 2023-24, indicating declining trend. During 2023-24, the inflexible expenditure (₹1,120.46 crore) increased by ₹66.91 crore (6.35 *per cent*) over the previous year (₹1,053.55 crore).

Taken together the committed and Inflexible expenditure in 2023-24 was ₹9,451.24 crore; 45.96 *per cent* of Revenue expenditure.

The State Government Spent ₹8,466.50 crore only on Capital Account. This was 29.16 and 19.25 *per cent* of Total Expenditure and GSDP respectively. During 2023-24, the Capital Expenditure was 224.20 *per cent* of Public debt receipts. Thus, borrowed funds were being used for capital creation/ development activities.

Result of Expenditure

The gap between the Revenue receipts and Revenue expenditure results in Revenue surplus. The State had managed to achieve to a surplus on Revenue account during the last five-years. The Revenue surplus of the State increased from ₹2,669.82 crore (8.89 *per cent* of GSDP) in 2019-20 to ₹6,876.65 crore (15.63 *per cent* of GSDP) in 2023-24. However, during the current year, there was an understatement of Revenue surplus of the State by ₹31.49 crore, considering that the overall Revenue Surplus depicted in the accounts was ₹6,876.65 crore, the State would have a Revenue Surplus of ₹6,908.14 crore.

The gap between the total expenditure and total non-debt receipt of the State results in Fiscal deficit. The fiscal deficit of the State increased from ₹1,032.22 crore (3.44 *per cent* of GSDP) in 2019-20 to ₹1,583.89 crore (3.60 *per cent* of GSDP) in 2023-24. However, during 2023-24, the Fiscal deficit was found overstated by ₹25.92 crore, considering that adjustments, the State would have Fiscal deficit of ₹1,557.97 crore instead of ₹1,583.89 crore.

National Pension System (NPS)

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 un-authorized use of funds belonging to its employees, thereby creating uncertainty in respect of the benefits due to the employees and avoidable future liability to the Government, as total amount of ₹58.00 crore (Saving Account: ₹44.82 crore, Current

Account: ₹6.79 crore and Public Account: ₹6.39 crore) remained to be transferred to NSDL by State Government.

Comprehensive Database of its investment in capital projects

The State did not have a comprehensive database of its investment in capital projects in the past having relevant information such as approved cost, the status of projects, details of completion time of the projects, and liabilities arising out of inordinate delays in completion of these projects as funds aggregating ₹365.29 crore were locked up during 2023-24 against 83 incomplete projects.

Non-clearance of outstanding balances under Suspense and Remittance heads

Non-clearance of outstanding balances under Suspense and Remittance heads affects the accuracy of Receipt/ Expenditure figures and balances under different heads of Accounts as the Outstanding net balances under Suspense and Remittance heads during 2023-24 was ₹1,613.15 crore (Debit).

Outstanding Public Liabilities

Public debt receipts consist of borrowings taken from Market, Financial Institutions and Loans and Advances from the GoI. The major sources of Public debt receipts for the State was Loans and Advances from GoI which constituted 62.61 *per cent* and Internal debt which constituted 37.39 *per cent*. The State Government has been opting for Market Borrowings (Market Loans and Loans from the financial Institutions) which was 99.13 *per cent* of Internal Debt during 2023-24.

Total Outstanding Public Liabilities of the State as on 31 March 2024, was ₹19,610.17 crore. Out of ₹19,610.17 crore, ₹9,392.43 crore was under Internal Debt, ₹5,636.29 crore under Public Accounts Liabilities and ₹4,581.44 crore under Loans and Advances from GoI. Significant portion of the borrowed funds are used for repayment of earlier borrowings leaving less space to use productively as the ratio of public debt repayments to the public debt receipts ranged between 22.91 to 52.83 *per cent* during the five-years period.

The maturity profile of outstanding stock of Public Debt as on 31 March 2024 indicates that out of the outstanding Public Debt of ₹13,973.87 crore, 63.44 *per cent* (₹8,864.99 crore) is payable within the next ten years while the remaining 36.56 *per cent* (₹5,108.88 crore) is in the maturity bracket of more than ten years. With respect to present Debt liability, the repayment obligation (Principal and Interest) on the State Government will be maximum in 2029-30.

Fiscal Sustainability

The Fiscal Sustainability is examined in terms of macro-fiscal parameters such as deficits, level of debt and liabilities, commitments on account of off-budget borrowings, guarantees, subsidies, *etc.* So far as Revenue and Expenditure mismatch is concerned, one of the important constraints is committed and inflexible expenditure which includes salaries and wages, interest payments and pensions payments *etc.* and other inflexible expenditure such as those arising out of commitment for centrally sponsored schemes, transfer to reserve funds and transfer to local bodies *etc.*

A low value of Debt to GSDP ratio indicates that the State's economy is vibrant to pay debt without incurring further debt and a high Debt to GSDP ratio signifies that the State's burden is substantial compared to its economic output and indicates financial vulnerability and reduced fiscal flexibility. The Debt to GSDP ratio of the State had been showing an increasing trend from 2020-21 to 2023-24. During the current year, it increased 5.10 points over the previous year (39.48 *per cent*). This indicates financial vulnerability and reduced the fiscal flexibility.

The Domar gap remained negative only during 2020-21 which shows that public debt as *percentage* of GSDP would increase indefinitely, without converging into a stable level. During 2023-24, the Domar gap was positive which indicates the public debt as *percentage* of GSDP would converge to a stable level.

Going by the analysis and results discussed above, the finances of the State of Arunachal Pradesh is marked by increasing trend of liabilities, which pose risk to the target of debt stabilisation and debt sustainability.

Reconciliation of Cash balances

Cash Balances of the State Government increased significantly by ₹2,562.68 crore (58.96 *per cent*) from ₹4,346.15 crore in 2022-23 to ₹6,908.83 crore in 2023-24. There was a net difference of ₹9.45 crore (Credit) at the end of accounting year 2023-24 between the General Cash Balance as worked out by the Accountant General ₹104.07 crore (Credit) and that reported by the RBI ₹94.62 crore (Debit).

Budget performance

Aggregate expenditure outturn

Aggregate Budget Outturn measures the extent to which the aggregate actual expenditure compares with the amount originally approved, both in terms of less than approved or in excess of approved. In the Revenue section, deviation in outturn compared with BE was (-)9.49 *per cent*. This was due to deviation up to (±)25 in 44 Grants, between (±)25 and (±)50 in 18 Grants, between (±) 50 and (±) 100 in 14 Grants and equal to or more than (±)100 in 03 Grants. In the Capital section, deviation in outturn compared with BE was (+)42.12 *per cent*. This was due to deviation up to (±) 25 in 24 Grants, between (±) 25 and (±)50 in six Grants, between (±) 50 and (±) 100 in 07 Grants and equal to or more than (±)100 in 35 Grants.

Expenditure Composition Outturn

Expenditure Composition Outturn measures the extent to which re-allocations between the main budget categories during the execution have contributed to variance in the expenditure composition. In the Revenue section, deviation in outturn compared with RE was (-)19.61 *per cent*. This was due to deviation up to (±)25 in 46 Grants, between (±)25 and (±)50 in 22 Grants, between (±) 50 and (±) 100 in 11 Grants. In the Capital section, deviation in outturn compared with BE was (-)20.10 *per cent*. This was due to deviation up to (±)25 in 53 Grants, between (±)25 and (±)50 in 12 Grants, between (±)50 and (±)100 in 04 Grants and equal to or more than (±)100 in 03 Grants

During 2023-24, an expenditure of ₹261.49 crore was incurred on 10 Grants/ Appropriations without any provisions in the original estimates/ supplementary demands and without any re-appropriation orders.

Supplementary provision aggregating ₹657.38 crore (₹10.00 lakh or more in each case) obtained in 18 Grants during 2023-24 proved unnecessary as the original provision was not fully utilised, indicating that Supplementary Grants were provided in an *ad-hoc* manner. Further, Supplementary Provisions aggregating ₹7,478.31 crore under 65 cases proved excessive by ₹3,394.28 crore under 58 cases and inadequate by ₹619.20 crore under 07 cases.

In 125 cases, the re-appropriation was not made after a realistic assessment as the expenditure was less/ more than the final appropriated amount resulting in Excessive/ Unnecessary/Inadequate/Injudicious of the re-appropriation orders. The Re-appropriation proved excessive by ₹1,209.67 crore in 69 cases, as Total Expenditure was ₹5,563.77 crore against the Final Grant (Original *plus* Supplementary *plus* Re-appropriation) of ₹6,773.44 crore. Under 08 cases, the Re-appropriation was inadequate as Total Expenditure ₹807.72 crore exceeded the Final Grant (Original *plus* Supplementary *plus* Re-appropriation) by ₹155.55 crore. In 36 cases, re-appropriation was unnecessary by ₹747.19 crore as actual expenditure was less than the Total Grant. Similarly, re-appropriation was injudicious in 12 cases by ₹516.08 crore.

Savings during the year accounted for about one-fifth of the budget. The controlling officers did not surrender the funds on time. However, Departments were not cautioned against the persistent savings; nor their budget varied in accordance with their ability to absorb the allocations. During 2023-24, the savings (₹one crore and above in each cases) aggregating to ₹4,628.24 crore in 36 cases was under Revenue section and ₹2,503.76 crore in 13 cases was under Capital section. Out of these, there were savings of ₹100 crore and above under 20 Grants. Further, there were persistent savings in 35 Grants during the last five years, indicating lack of systematic and closer budget review by the Government.

During 2023-24, against the gross savings of ₹8,241.88 crore, 67 departments surrendered ₹5,962.34 crore (72.34 *per cent*), however, the entire amount was surrendered on the last day of the financial year. Further, in respect of eight grants, there was an injudicious surrender of ₹120.84 crore as the Departments surrendered in excess of savings within the grant.

Non-compliance with rules stated 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 86 cases, anticipated savings were not surrendered by the prescribed date.

During 2023-24, there was an excess expenditure over provisions in 11 Grants/ Appropriations by ₹816.97 crore. In addition, an excess expenditure amounting to ₹3,343.64 crore from 1986-87 to 2022-23 are pending for regularisation. Such excess expenditure over budgetary allocation is a matter of concern, as it is indicative of poor budgetary management and dilutes legislative oversight over public funds.

The substantial variations of actuals with the revised estimates indicates 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 2022-23 (Allocated ₹364.91 crore against 14 departments) was required to be incorporated in the Gender Budget of 2023-24 to ascertain the effectiveness of the schemes targeted to benefit women. It was however, noticed that no such report was incorporated in Gender Budget of 2022-23 due to which actual achievement of schemes for the benefit of women could not be analysed.

Quality of Accounts and Financial Reporting

Non-discharge of interest liability

Interest on non-discharged liability in the current year increases the burden on the Government's Revenue Receipts at a future date as during 2023-24, the State Government did not discharge interest liability of ₹59.05 crore in respect of balances lying as on 01 April 2023 in the interest-bearing Reserve Funds and Deposits.

Funds transferred directly to the State Implementing Agencies

The Government of India has been transferring funds directly to the Implementing Agencies in the State for implementing various CSS schemes/ programme in Social and Economic Sectors. During 2023-24, the Government of India transferred ₹1,243.52 crore directly to the Implementing Agencies as these funds are not routed through the Consolidated fund of Arunachal Pradesh, the Annual Accounts do not capture the flow, utilisation and parking of such funds. Thus, the State's receipts and expenditure as well as other fiscal variables and parameters derived from the State Accounts do not present the complete picture to that extent.

Delay in submission of Utilisation Certificate

As of 31 March 2024, 561 UCs in respect of the grants amounting to ₹2,785.36 crore have not been submitted by the various departments of the State Government to the office of Principal Accountant General, Arunachal Pradesh, Itanagar. Non-submission of Utilisation Certificates by Departments for funds drawn for specific developmental programmes/ projects and was violative of prescribed financial rules and directives. Also, huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds.

Delay in rendering 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. Exclusion of accounts not only distorts the budgetary position of the Government but also impacts its monitoring of fund flow to the last mile of implementation, its planned pacing of expenditure on developmental programme.

Submission of Annual Accounts by Autonomous Bodies and SPSEs

The Annual Accounts of four Autonomous Bodies (12 Accounts) were not submitted to audit as of September 2024. Further, 09 Accounts pertaining to State Compensatory Afforestation Fund Management and Planning Authority (State CAMPA) were pending from 2015-16

onwards. The State Forest Department which has the responsibility to oversee the activities of State CAMPA, did not take effective actions to clear the huge arrears in submission of accounts.

As on 30 September 2024, all six working SPSEs had total arrear of 39 Accounts ranging from 02 to 17 Accounts. The highest pendency of accounts pertained to Arunachal Pradesh Mineral Development and Trading Corporation Limited (17 Accounts) and Arunachal Pradesh Forest Corporation Limited (11 Accounts).

Delays in the submission of accounts to audit reflects weak internal controls and inadequate monitoring by the State Government in addition to the lack of accountability from these Autonomous/ Authorities for the funds released by the State Government. It may also make the system vulnerable to fraud and leakage of public money.

Recommendations

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

Adhere to the prescribed procedure for accounting of 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.

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.

Identify potential wasteful expenditure and adopt economic measures across departments on the increasing trends of share of Committed Expenditure to the Revenue Expenditure.

Plan in advance for reducing other Committed expenditure and enhancing the revenue collection capacity to meet this obligation so as to mobilise debt resources adequately for incurring Capital expenditure for the creation of assets.

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

Review the 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.

Identify the Departments, which had incurred excess expenditure persistently and closely monitor their progressive expenditure, so that they seek supplementary grants/ re-appropriations in time. Further, the State Government should view the excess expenditure

over the budgetary provision seriously as the cases are serious lapse against legislative control and take appropriate corrective measures for regularisation of expenditure in excess of budgetary provision.

Ensure timely submission of Utilisation Certificates by the departments in respect of the grants released for specific purposes.

Monitor closely and ensure the rendition of accounts by all the account rendering authorities to the Principal Accountant General on timely basis to manage its own budget more effectively.

Evolve 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 the GSDP for the year 2023-24 could not be ascertained and their contribution to State exchequer could not be reported to the State Legislature.