

EXECUTIVE SUMMARY

The Report

This report provides an analysis of the finances of the State Government, based on the audited accounts of the Government of Nagaland for the year ended March 2017. The Report has three Chapters.

Chapter I is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2017. It presents and analyses the State Government's resources and their application.

Chapter II is based on audit of the Appropriation Accounts and reviews the allocative priorities of the State Government and the manner in which the allocated resources were managed by the various Departments.

Chapter III gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during 2016-17.

The Report has 23 appendices containing additional data collated from several sources in support of the findings.

Audit findings

Analysis of Finances of the State Government

- ❖ *State's Own Resources (Own Tax and Non-Tax Resources) were a meagre nine per cent of the total Receipts of the State.*
- ❖ *The State registered revenue surplus of ₹ 790.34 crore during 2016-17. Fiscal deficit (₹284.86 crore) stood at 1.35 per cent of Gross State Domestic Product (GSDP).*
- ❖ *There was an opening cash balance of ₹893.35 crore and a closing balance of ₹1,260.39 crore. The State raised Public Debt to the tune of ₹1,182.44 crore.*
- ❖ *Capital expenditure (₹1,076.10 crore) was less than the Budget Estimates (₹1,268.30 crore). Its ratio to total expenditure stood at 11.06 per cent which was less than the combined average (13.60 per cent) of Special Category States.*
- ❖ *There was a decline of ₹179.08 crore in the Capital Expenditure compared to 2012-13.*
- ❖ *In view of the Revenue Surplus and Cash Balances of the State during the current year, the State could have financed their Capital needs from internal sources without resorting to raising of Public Debt. This reflects poor management of the finances of the State.*

- ❖ *The State has paid an interest of ₹635.50 crore on outstanding liabilities.*
- ❖ *During the year, revenue expenditure accounted for 89 per cent of the State's aggregate expenditure, which was in the nature of current consumption, leaving only 11 per cent for investment in infrastructure and asset creation.*
- ❖ *The Development Expenditure of the State remained the same, in terms of percentages, even as the total receipt of the State has seen a substantial increase with enhanced devolution as per the recommendations of the XIV Finance Commission.*
- ❖ *Devolution to the State was enhanced to the tune of ₹1,225.93 crore during 2016-17 on the basis of XIV Finance Commission recommendations. Audit noted that additional devolution led to increase in revenue expenditure by ₹1,070.31 crore over previous year.*
- ❖ *During 2016-17, the return of the Government on its investments in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives were NIL. These investments were funded mainly through borrowings on which it paid interest at six per cent indicating non-performing investments. Out of the five working Government Companies, accumulated losses in three Government Companies had exceeded their paid-up capital and in the remaining two Government Companies, the accumulated losses were more than 50 per cent of the paid-up capital. The current level of recovery of loans was low with a significant gap between disbursements.*
- ❖ *The maturity profile of Debt as on 31 March 2017 indicated that State has to repay 49 per cent of debt amounting to ₹3,491.45 crore within the next 7 years which might put strain on the Government budgets during that period.*

(Chapter I)

Financial Management and Budgetary Control

Sound financial management requires advance planning and accurate estimation of revenues and expenditure. There were instances of excess expenditure or substantial savings with reference to provisions made during the year, exhibiting weakness in expenditure monitoring and control.

The overall savings of ₹2,251.78 crore (16.49 per cent of budget provision) were the result of savings of ₹2,343.94 crore partially offset by an excess of ₹92.16 crore under various sections (Voted/ Charged). Out of the total savings of ₹2,251.78 crore, total surrender amounted to ₹2,401.67 crore (106.66 per cent). Out of the total savings, 84 per cent savings occurred under nine grants. In view of the final savings, the Supplementary Grant of ₹78.58 crore proved excessive. Excess surrender indicates weak controls in Financial Management.

Further, in 155 sub-heads, the surrenders amounted to more than 50 per cent of the provisions. At the close of the year 2016-17, savings in 17 grants (amounting to

₹2.31 crore) occurred which had not been surrendered by the concerned departments. Besides, in 22 cases (surrender of funds for ₹10.00 crore and above), ₹2,269.63 crore were surrendered on the last two working days of March 2017 indicating inadequate financial control. As such, these funds could not be utilised for other developmental purposes.

Excess expenditure over the allocations amounting to ₹929.63 crore pertaining to the years 2000-01, 2005-06, 2008-09 to 2010-2011, 2012-13 to 2015-16 was not regularised till October 2017. There were persistent savings under three grants. The cases of excess expenditure over grants are serious breaches and are in violation of the wish of the Legislature. It is important that responsibility is fixed in this regard.

Detailed Contingent bills were not submitted for an amount of ₹288.67 crore drawn on 276 Abstract Contingent bills. In the absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Un-adjustment of AC Bills for long periods in violation of prescribed rules and regulations was fraught with the risk of embezzlement and corruption.

(Chapter II)

Financial reporting

Audit observed various instances of non-observance of financial rules and procedures and absence of financial controls.

An amount of ₹32.18 crore was lying in Civil Deposits and ₹2.41 crore was lying in Current Account at the end of the year. In addition, an amount of ₹174.50 crore was lying in the bank accounts of 156 Drawing & Disbursing Officers. Paying interest at higher rates (nine per cent on an average) on borrowings while keeping huge amounts in Civil Deposits and Bank Accounts which did not bear any interest showed poor cash and financial management of the State Government.

Utilisation Certificates were not furnished in 286 cases involving ₹909.61 crore since the last 1 to 6 years. There were delays in submission of annual accounts by 22 Autonomous Bodies/ Authorities which diluted accountability and defeats the very purpose of preparation of accounts.

Some institutions receiving grants/ loans from Government failed to adhere to the timelines for submitting annual accounts.

As on 31 March 2017, 25 cases of misappropriation, defalcation etc. involving ₹230.33 crore were pending finalization.

(Chapter III)