



**EXECUTIVE SUMMARY**



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## Background

This Report on the Finances of the Government of Sikkim is being brought out with a view to assessing the financial performance of the State during the year 2017-18. The aim of this Report is to provide the State Government with timely inputs based on actual data so that there is a better insight into the performance of schemes/programmes of the Government. In order to give a perspective to the analysis, an effort has been made to compare with the normative assessment made by the XIV Finance Commission (XIV FC). A comparison has been made to see whether the State has given adequate fiscal priority to developmental as well as Social Sector and Capital Expenditure and whether the expenditure has been effectively absorbed by the intended beneficiaries.

## The Report

Based on the audited accounts of the Government of Sikkim for the year ended March 2018, this Report provides an analytical review of the annual accounts of the State Government. The Report has three Chapters.

**Chapter I** is based on the audit of Finance Accounts and makes an assessment of the Government of Sikkim's fiscal position as on 31 March 2018. It provides an insight into trends in committed expenditure, borrowing pattern and a brief account of Central funds transferred directly to the State implementing agencies through off Budget route.

**Chapter II** is based on audit of Appropriation Accounts and gives the grant-by-grant description of appropriations and the manner in which the allocated resources were managed by the service delivery departments.

**Chapter III** is an inventory of Government of Sikkim's compliance with various reporting requirements and financial rules.

The Report also has an appendage of additional data collated from several sources in support of the findings.

## Audit findings and recommendations

### *Chapter-I: Finances of the State Government*

The fiscal position of the State viewed in terms of key fiscal parameters-revenue surplus, fiscal deficit, primary deficit, etc., indicated that the State had been able to maintain revenue surplus during the last five years and suffered fiscal deficit during 2017-18. Revenue

surplus recorded increase (₹ 238.72 crore) during the year as compared to the previous year. This was due to increase in Revenue Receipts by 13.07 *per cent* (₹ 602.49 crore) and increase in Revenue Expenditure of only 9.60 *per cent* (₹ 363.77 crore) during 2017-18 as compared to 2016-17. Further, fiscal surplus of ₹ 86.30 crore during 2016-17 turned to fiscal deficit of ₹ 461.88 crore during 2017-18.

➤ **Revenue Receipts**

Revenue Receipts increased by ₹ 602.49 crore (13.07 *per cent*) from ₹ 4,610.30 crore in 2016-17 to ₹ 5,212.79 crore in 2017-18. During 2017-18, 74.24 *per cent* of the Revenue Receipts were from Government of India as Central transfers in the form of State's share of taxes and Grants-in-aid contributions while only 25.76 *per cent* revenue was collected from State's own sources (*i.e.* Tax and Non-Tax Revenue). The Tax Revenue Receipts at ₹ 688.33 crore was lower by ₹ 942.67 crore than the projections made by XIV FC (₹ 1,631 crore). However, Non-Tax Revenue was higher by ₹ 256.38 crore.

➤ **Expenditure**

During 2017-18, the Total Expenditure increased by 25.42 *per cent* from ₹ 4,525.37 crore in 2016-17 to ₹ 5,675.58 crore during 2017-18. Revenue Expenditure constituted 73.15 *per cent*, Capital Expenditure constituted 26.55 *per cent* and loans and advances constituted 0.30 *per cent* of Total Expenditure during 2017-18. The expenditure on Social and Economic Sectors, which are considered as Development Expenditure, accounted for 69.02 *per cent* of Total Expenditure in 2017-18. Capital Expenditure increased by 109.19 *per cent* (₹ 786.49 crore) over the previous year.

➤ **Fiscal Correction Path**

Revenue surplus was higher than the budget estimate and the target fixed by XIV FC. There was fiscal deficit during the current year. Ratio of total outstanding debt of the Government to GSDP was higher than the target fixed by XIV FC but slightly lesser than the target proposed in budget proposal and projected in Five-year Fiscal Plan/MTFP.

➤ **Fiscal Liabilities**

Fiscal liabilities of the State increased by ₹ 1,019.61 crore (18.55 *per cent*) from ₹ 5,495.45 crore in 2016-17 to ₹ 6,515.06 crore in 2017-18.

The growth rate of outstanding fiscal liabilities which was 12.86 *per cent* in 2016-17 increased to 18.55 *per cent* in 2017-18

The buoyancy of the liabilities with respect to Gross State Domestic Product (GSDP) during the year was 1.66 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.66 *per cent*.

Debt-GSDP Ratio for the year 2017-18 was 24.50 *per cent* which was higher than the recommended target (19.66 *per cent*) of XIV FC.

### ➤ Investment and Returns

The return from investments was 2.85 *per cent*. However, some of the Companies/Corporations were incurring recurring losses.

*State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.*

### **Chapter- II: Financial Management and Budgetary Control**

The State Government had not framed a Budget Manual detailing the procedures for preparation of budget estimates, realisation of revenue, control over expenditure, *etc.* Against the total provision of ₹ 7,463.79 crore during 2017-18, an expenditure of ₹ 6,019.07 crore was incurred. This resulted in an unspent provision of ₹ 1,444.82 crore (19.36 *per cent*). Excess expenditure of ₹ 82.96 crore during 2012-13 to 2017-18 required regularisation under Article 205 of the Constitution. The supplementary provision of ₹ 269.33 crore in 32 cases was found to be unnecessary. In 51 cases, ₹ 868.47 crore was surrendered on the last working day of the financial year. An amount of ₹ 77.78 crore drawn during 2013-18 as advances remained unsettled distorting the amount of expenditure being shown as such.

*A Budget Manual should be prepared immediately enumerating detailed procedures for better financial management.*

*The Budget should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided.*

### **Chapter- III: Financial Reporting**

During the year 2017-18, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Accountant General.

However, the practice of not furnishing Utilisation Certificates in time against grants received, irregular expenditure by diverting funds, release of grants without obtaining any Detailed Project Reports /Detailed Estimates by the Ecclesiastical Affairs Department which is in violation of the norms framed by the Department, of not furnishing of detailed information about financial assistance given to various Institutions and of not submitting of 72 annual accounts by 32 Autonomous Bodies/Authorities from 2010-11 to 2017-18 in time indicated that financial rules were not complied with. There were also delays in placement of Separate Audit Reports in the State Legislature.

*There is a need to ensure that the Separate Audit Reports of the Autonomous Bodies are placed in the Legislature on time, Utilisation Certificates are submitted by recipient of grants within the prescribed time and expenditures are incurred in terms of norms framed by the Department and Government.*

