Chapter - I
Overview

Chapter 1   Overview

1.1   Profile of the State

Assam is the second largest State in the North Eastern region of India and is, in fact, the gateway to this region. The State is spread over a geographical area of 78,438 sq.km. (2.4 *per cent* of the country's total geographical area) and is home to around 3.12 crore persons (2.6 *per cent* of the population of the country) as per Census 2011. At 12.27 *per cent*, the decadal (2009-2019) growth of population of the State was more than the 11.91 *per cent* rate of growth of Special Category States (SCS), but marginally lower than the all India growth rate of 12.84 *per cent*.

The State has 33 districts and three Autonomous District Councils (ADCs). It was designated as an SCS in 1969 in terms of the Gadgil formula, which ensured that 90 *per cent* of funding for centrally sponsored schemes is received as a grant from Central Government. The per capita income of the State at current prices was ₹ 91,861 in 2018-19, which was lower than the all India average of ₹ 1,42,719 as well as the average of the SCS of ₹ 1,37,174.

General and financial data relating to the State is given in *Appendix 1.1.*

1.2   Basis and Approach to State Finances Audit Report

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) of Assam for the year ending 31 March 2019 has been prepared by the CAG for submission to the Governor of Assam under Article 151 (2) of the Constitution of India.

Accountant General (Accounts & Entitlements) prepares the Finance Accounts and Appropriation Accounts of the State annually, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Accountant General (Audit), and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State for the year 2018-19 constitute the core data for this report. Other sources include the following:

- Budget of the State for the year 2018-19 also forms an important source of data – both for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;

- Results of audit carried out by the Office of the Accountant General (Audit), Assam at the State Secretariat as well as at the field level during the year;

- Other data with Departmental Authorities and Treasuries (accounting as well as MIS);

- GSDP data and other State related statistics from the Directorate of Economics and Statistics Wing of Transformation and Development (T&D) Department of Assam; and

- Various audit reports of the CAG of India during 2014-19 have also been used to prepare this analysis/ commentary as appropriate.

The analysis has been carried out in the context of recommendations of the XIV Finance Commission (FC), Assam Fiscal Responsibility and Budget Management (AFRBM) Act, best practices and guidelines of the Government of India. An entry conference was held in January 2020 with the Principal Secretary to the Government of Assam, Finance Department wherein the audit approach was explained and the draft Report was forwarded to the State Government in February 2020 for comments. Replies of the Government, where received, have been incorporated in this Report at appropriate places.

1.3   Report Structure

The SFAR is structured into the following four Chapters:

Chapter - 1	*Overview*
	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*
	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 2014-15 to 2018-19, debt profile 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 & 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.

1.4 Structure of Government Accounts

It is necessary to understand the structure of Government Accounts in order to appreciate the analysis of the finances of the State Government given in **Chapter 2** of this report.

Government Accounts are defined by the twin principles of Fund based accounting and functional classification of transactions of the Government. Fund based accounting system involves sourcing and allocating all receipts and disbursements to one of the three Funds, *viz.*, Consolidated Fund, Contingency Fund and Public Account. These Funds are created by the Constitution and function as instruments of public accountability. The details and purpose of each of these Funds are given in **Chart 1.1**.

Chart 1.1: Structure of Government Accounts

Consolidated Fund - Part I

The Consolidated Fund comprises all the receipts and expenditure of the Government on Revenue and Capital Accounts, Public Debt and Loans and Advances

Contingency Fund - Part II

This Fund is intended to meet unforeseen expenditure not provided for in the budget. Expenditure from this Fund is recouped subsequently from the Consolidated Fund. The corpus of this Fund is ₹ 100 crore in Assam

Public Account - Part III

All public money received, other than that credited to the Consolidated Fund, is accounted for under Public Account. The Government acts as a trustee or a banker in respect of such funds

Functional classification involves arranging the receipts and expenditure by economic categories, distinguishing the Government transactions into Sections like Revenue and Capital (including Public Debt, Loans and Advances), Sectors like Tax Revenue from other revenue and Grants-in-Aid, Sub-sectors like Taxes on Income and Expenditure, fiscal services, *etc.* On the expenditure side also, the transactions are classified into Sectors *viz.*, General Services, Economic Services, Social Services and Grants-in-Aid and contributions and sub-divided into Major Heads of account below these Sectors.

Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government, such as 'Agriculture', while Minor Heads subordinate to them identify the 'Programme' undertaken to achieve the objectives of the function represented by the Major Head. A programme may consist of a number of schemes or activities and these generally, correspond to 'Sub-heads' below the Minor head. 'Detailed head' below the Sub-head, is primarily meant for itemised control over expenditure and indicates the object or nature of expenditure on a scheme or activity in terms of inputs such as 'Salaries', 'Office Expenses', 'Grants-in-Aid', *etc.*

A pictorial depiction of the structure of Government Accounts is given in **Chart 1.2**.
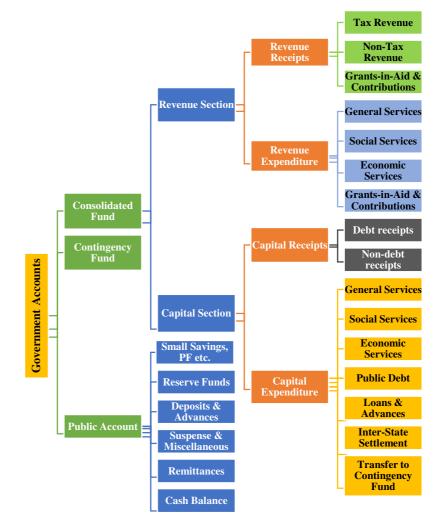
Chart 1.2: Pictorial depiction of the structure of Government Accounts

Fund based accounting coupled with functional and economic classification of transactions facilitates an in-depth analysis of Government activities/ transactions and enables Legislative oversight over public finances.

1.5 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of Assam caused to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2018-19, in the form of an **Annual Financial Statement** (referred to as Budget) with estimates of expenditure,

- charged upon the Consolidated Fund of the State;
- the sums required to meet other expenditure proposed to be made from the Consolidated Fund of the State; and shall distinguish expenditure on Revenue Account from other expenditure.

In terms of Article 203, the above was submitted to the State Legislature in the form of 81 Demands for Grants/ Appropriations and after approval of these, the Appropriation Bill

was passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund.

As mentioned in Paragraph 1.2, Finance Accounts and Appropriation Accounts encompass the core data for preparation of the SFAR. These Accounts are based on actual receipts and expenditure of the State during the year 2018-19 including various inter-governmental and other adjustments carried out by the Reserve Bank of India (RBI). Considering that these receipts and expenditure are estimated in the budget and the expenditure has been approved by the State Legislature, it is important to study the budget of the State for 2018-19 closely and analyse the actual receipts and expenditure during the year with reference to the projections made in the budget.

The Assam Budget Manual details the budget formulation process and guides the State Government in preparing its budgetary estimates and monitoring its expenditure activities. While formulating its Budget for 2018-19, the State Government introduced substantial procedural and policy changes to improve transparency and to ensure better control over unproductive areas. Towards this end, it outlined the following strategy:

a)   rationalise Budget Heads of Accounts, where no expenditure is recorded;

b)   streamline revenue systems and prevent revenue leakages so as to augment own tax revenue;

c)   curtail unproductive revenue expenditure to maintain revenue balance;

d)   focus on identifying budgetary interventions in priority areas with an emphasis on *Outcome* budget (aligned to sustainable development goals set by the UN), *Gender* budget, *Child* budget (girl child), *Elderly* budget and *Divyang* budget.

Although the State has been preparing an 'Outcome budget' during the last few years, it is yet to map the actual outcomes of various budgetary interventions with the corresponding projections made in the relevant budget. The achievement of actual outcomes as against those projected in Budget 2018-19 were thus, not placed before the Legislature as of March 2020.

Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.6   Gross State Domestic Product of Assam

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Trends in annual growth of Assam's GSDP (nominal) *vis-à-vis* that of the country are given in **Table 1.1**.

Table 1.1: Trends in growth of GDP and GSDP

(₹ in crore)

Year	2014-15	2015-16	2016-17	2017-18	2018-19
National GDP (2011-12 Series)	1,24,67,959	1,37,71,874	1,53,62,386 (2nd RE)	1,70,95,005 (1st RE)	1,90,10,164 (PE)
Growth rate of GDP over previous year at current prices (*per cent*)	10.99	10.46	11.55	11.29	11.20
State's GSDP (2011-12 Series)	1,95,723	2,27,959	2,54,478	2,88,494 (PE)	3,15,372 (QE)
Growth rate of GSDP over previous year at current prices (*per cent*)	10.11	16.47	11.63	13.37	9.32

Source of data: GoI's Economic Survey (2018-19) and Directorate of Economics and Statistics, Assam
R.E: Revised Estimates; P.E. - Provisional Estimates; Q.E. - Quick Estimates

As can be seen from the details tabulated above, the GSDP of Assam grew at a higher rate during the period from 2015-16 to 2017-18 compared to the national growth rate. However, during the year 2018-19, it registered the lowest growth rate in five years.

Chart 1.3 reveals that during the five-year period from 2014-15 to 2018-19, there has been a significant decrease in the relative share of Agriculture in GSDP, reducing from 20.23 *per cent* in 2014-15 to 15.98 *per cent* in 2018-19. Matching increase was seen in Industry sector, with only a marginal increase in the relative share of Services sector.
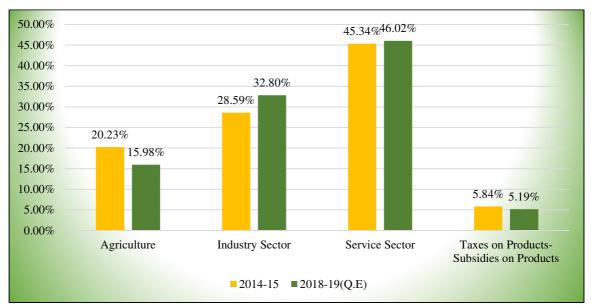
Chart 1.3: Change in sectoral contribution to GSDP (2014-15 to 2018-19)

Source of data: Directorate of Economics and Statistics, Assam

The sectoral contribution to GSDP of the State during 2018-19 is given in **Chart 1.4**.
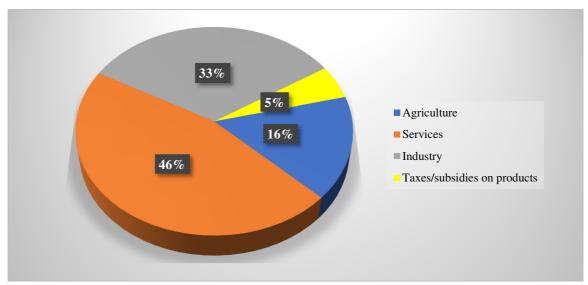
Chart 1.4: Sectoral Contribution to GSDP (2018-19 Quick Estimates)

During 2018-19, there was a decline in the growth rate of all three sectors in comparison with the previous year, as can be seen from **Chart 1.5**.
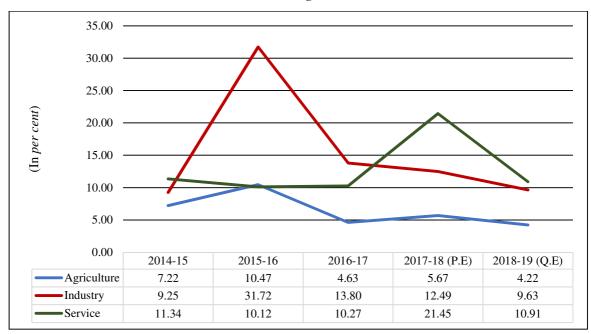
Chart 1.5: Sectoral growth in GSDP

	2014-15	2015-16	2016-17	2017-18 (P.E)	2018-19 (Q.E)
Agriculture	7.22	10.47	4.63	5.67	4.22
Industry	9.25	31.72	13.80	12.49	9.63
Service	11.34	10.12	10.27	21.45	10.91

1.7   Trends in Key Fiscal Parameters

Deficit is an indicator of prudent fiscal management of the Government. Further, the ways in which the deficit is financed, and the resources raised are applied, are important pointers to its fiscal health. This Section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under AFRBM Act/ Rules for the financial year 2018-19.
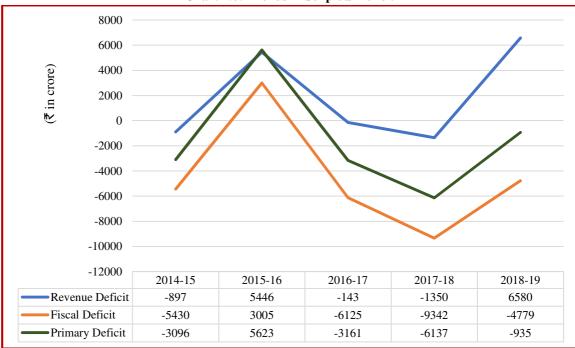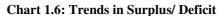
1.7.1 What are Deficit and Surplus?

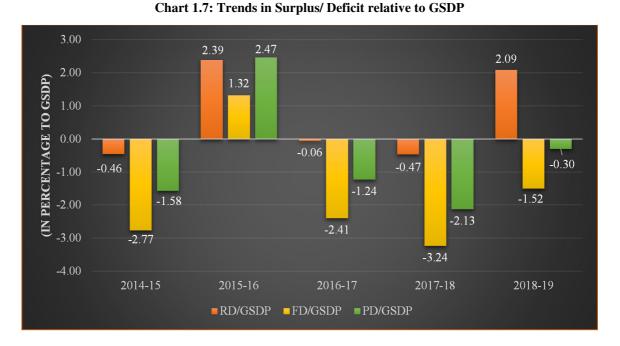|	
Revenue Deficit/ Surplus	*Refers to the gap between Revenue Expenditure and Revenue Receipts*
Fiscal Deficit/ Surplus	*This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure. FD is reflective of the total borrowing requirements of Government*
Primary Deficit/ Surplus	*Primary Deficit is measured as Fiscal Deficit less interest payments*

Source: Budget at a Glance, Government of India 2018-19

1.7.2 Trends of Deficit/ Surplus

The State is well within the targets specified by the XIV FC during 2018-19 with regard to the key fiscal parameters, compared to the previous year. It had a fiscal deficit of ₹ 4,779 crore during the year 2018-19, representing 1.52 *per cent* of the GSDP and constituted seven *per cent* of Total Expenditure. The Primary Deficit of ₹ 6,137 crore during 2017-18 was reduced to ₹ 935 crore during the current year and the Revenue Deficit of ₹ 1,350 crore in 2017-18 turned to a surplus of ₹ 6,580 crore during 2018-19. The trend of these surplus and deficits over the five-year period from 2014-15 to 2018-19 is depicted in **Chart 1.6** and trend in surplus or deficit relative to GSDP is given in **Chart 1.7**.

Chart 1.6: Trends in Surplus/ Deficit

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Deficit	-897	5446	-143	-1350	6580
Fiscal Deficit	-5430	3005	-6125	-9342	-4779
Primary Deficit	-3096	5623	-3161	-6137	-935

Chart 1.7: Trends in Surplus/ Deficit relative to GSDP

Significant surplus on Revenue Account was mainly due to the fact that the State could not utilise the available resources, with the actual Revenue Expenditure falling short of BE and RE by 20.23 and 30.62 *per cent* respectively during the year. During 2018-19, Revenue Receipts increased significantly by 17.27 *per cent* (₹ 9,348 crore) over the previous year, while Revenue Expenditure increased marginally by 2.56 *per cent* (₹ 1,418 crore) during the same period.

1.7.3 Components of Fiscal Deficit and its Financing Pattern

The share of Revenue Deficit in Fiscal Deficit indicates the extent to which borrowed funds were used for current consumption. Persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (fiscal liabilities) does not have any asset backup.

The financing pattern of Fiscal Deficit has undergone a compositional shift as reflected below in **Table 1.2**.

Table 1.2: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
	Fiscal Deficit (-)/Surplus (+) (FD/GSDP)	**-5,430** **(-2.77)**	**3,005** **(+1.32)**	**-6,125** **(-2.41)**	**-9,342** **(-3.24)**	**-4,779** **(-1.52)**
Composition of Fiscal Deficit/Surplus						
1	Revenue Deficit (-) /Surplus(+)	-897	5,446	-143	-1,350	6,580
2	Net Capital Expenditure	-3,912	-2,691	-5,502	-7,693	-11,034
3	Net Loans & Advances	-621	250	-480	-249	-325
Financing Pattern of Fiscal Deficit*						
1	Public Debt	2,955.23	3,529.09	1,859.08	6,488.47	8,165.29
2	Small Savings, Provident Fund & Others	890.13	860.14	796.45	1,027.66	981.06
3	Reserves & Sinking Fund	320.62	230.03	1,240.52	-2,294.54	107.50
4	Deposits	-528.16	-967.83	1,029.91	72.71	896.87
5	Civil Advances	294.62	-38	-684.26	-516.32	254.59

	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
6	Cash Balance Investment Account	1,607.27	-5,505.40	2,328.47	4,244.69	-7,325.32
7	Other Suspense and Miscellaneous Account	-88.40	-229.43	223.20	650.93	1,011.59
8	Remittances	30.26	-47.66	-72.34	20.50	-56.58
9	Deposits with RBI	-52.04	-836.41	-595.26	-401.90	744.06
10	Contingency Fund	0	0	0	50.00	0
	Total	5,429.53	-3,005.47	6,125.77	9,342.20	4,779.06
*All the figures are net of disbursements/ outflows during the year						

1.7.4 Actual Revenue and Fiscal Deficit

Excessive focus on short-term objectives for overcoming budget deficit, encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.3** assesses actual surplus/ deficit after taking into account short/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2018-19.

Table 1.3: Actual Revenue and Fiscal Deficit

Particulars	Impact on Revenue Surplus (Understated(-)/ overstated(+)) (₹ *in crore*)	Impact on Fiscal Deficit (Understated) (₹ *in crore*)
Major works budgeted/ booked under Revenue Section instead of Capital	(-) 545.34	--
Minor works budgeted/ booked under Capital Section instead of Revenue	(+) 120.01	--
Grants-in-Aid booked under Capital Section instead of Revenue	(+) 5,489.95	--
Short transfer of Government matching contribution towards National Pension System	(+) 144.89	144.89
Non discharge of Interest liabilities	(+) 59.12	59.12
Shortfall in State Government contribution to Consolidated Sinking Fund	(+) 10.52	10.52
Inter account transfer of expenditure pertaining to the year 2017-18 from MH-8121 to MH-2245	(+) 9.38	9.38
Total	**(+) 5,288.53**	**223.91**

Source: Finance Accounts

As can be seen from the above table, there was an overstatement of Revenue Surplus by ₹ 5,288.53 crore during the year. However, considering that the overall Revenue Surplus depicted in the accounts was ₹ 6,580 crore, the State would have a Revenue Surplus of ₹ 1,291 crore during 2018-19 even after considering the items of misclassification, that have resulted in overstatement.

1.8 Fiscal Correction Path

State Government enacted the AFRBM Act, 2005 in line with the Union FRBM Act, 2003, to ensure fiscal stability and sustainability, improve efficiency and transparency in management of public finances, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove the impediments to effective conduct of fiscal policy and prudent debt management.

The Act was subsequently amended five times, with the latest amendment being in April 2017.

1.8.1 AFRBM Targets on Key Fiscal Parameters and Achievements thereon

As per the amendment to the AFRBM Act in 2011, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain Revenue Surplus thereafter; reduce Fiscal Deficit to three *per cent* of the estimated GSDP by 2010-11 and maintain the same level thereafter. Further, the Act also envisaged that the State Government would limit the total outstanding debt to GSDP to 28.40 *per cent* in 2012-13 and maintain that in 2013-14. With effect from 2014-15, this ratio was to be 28.50 *per cent* of GSDP.

The amendment to the AFRBM Act in April 2017 incorporated the recommendations of the XIV FC relating to limit of Fiscal Deficit recommended for the states during its award period (2015-16 to 2019-20). The Act provided room for deviation from the annual Fiscal Deficit target under certain conditions, with the Fiscal Deficit anchored to an annual limit of three *per cent* of GSDP in any financial year.

Revised targets relating to key fiscal parameters envisaged in the amended AFRBM Act and their achievement during the five-year period from 2014-15 to 2018-19 are given in **Table 1.4**.

Table 1.4: Compliance with provisions of AFRBM Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2014-15	2015-16	2016-17	2017-18	2018-19
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Revenue Surplus	-897	5,446	-143	-1,350	6,580
		✗	✓	✗	✗	✓
Fiscal Deficit (-)/ Surplus (+) (as *percentage of GSDP*)	Three *per cent*	-5,430 (-2.77)	3,005 (1.32)	-6,125 (-2.41)	-9,342 (-3.24)	-4,779 (-1.52)
		✓	✓	✓	✗	✓
Ratio of total outstanding debt to GSDP (in *per cent*)	28.50 *per cent*	18.09	17.13	17.28	17.08	18.84
		✓	✓	✓	✓	✓

The State could achieve Revenue Surplus only during two out of the five-year period from 2014-15 to 2018-19. During 2018-19, the Revenue Surplus was ₹ 6,580 crore. However, as detailed in **Table 1.3**, this surplus has to be viewed in the light of non-contribution to the required causes by the State Government and misclassification of revenue items under capital category.

The State was successful in containing the Fiscal Deficit below three *per cent* of GSDP in four out of the last five years, and had in fact, a fiscal surplus of ₹ 3,005 crore in 2015-16. It was also successful in reining in the Fiscal Deficit below three *per cent* in 2018-19.

During the five-year period from 2014-15 to 2018-19, outstanding debt of the State remained consistently below 28.50 *per cent* of GSDP, *i.e.,* within the norms prescribed in the AFRBM Act, 2011.

1.8.2 Medium Term Fiscal Plan

As per the AFRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium Term Fiscal Plan (MTFP) has to set forth a five-year rolling target for the prescribed fiscal indicators.

Table 1.5 indicates the variation between the projections made for 2018-19 in MTFP presented to the State Legislature along with the Annual Budget for 2018-19 and Actuals of the year.

Table 1.5: Actuals *vis-à-vis* projection in MTFP for 2018-19

(₹ in crore)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2018-19)	Variation (in *per cent*)
1	**Own Tax Revenue**	17,452	15,925	-8.75
2	**Non-Tax Revenue**	8,192	8,221	+0.35
3	**Share of Central Taxes**	26,095	25,216	-3.37
4	**Grants-in-Aid from GoI**	22,380	14,117	-36.92
5	**Revenue Receipts (1+2+3+4)**	74,119	63,479	-14.36
6	**Revenue Expenditure**	71,329	56,899	-20.23
7	**Revenue Deficit (-)/ Surplus (+) (5-6)**	2,790	6,580	+135.84
8	**Fiscal Deficit (-)/ Surplus (+)**	-9,774	-4,779	-51.10
9	**Debt-GSDP ratio (*per cent*)**	17.62	18.84	+6.92
10	**GSDP growth rate at current prices (*per cent*)**	17.00	9.32	-45.18

As can be seen from the above table, the projections made in MTFP relating to two key fiscal parameters *i.e.*, Revenue Surplus and Fiscal Deficit improved significantly during 2018-19 compared to the projections. However, projections relating to Debt-GSDP ratio and growth rate of GSDP were not met, with the year ending at a higher Debt to GSDP ratio, and with lower growth in GSDP than was projected in the MTFP.