Executive Summary

Background

This Report on the Finances of the Government of Meghalaya is being brought out with a view to assess objectively the financial performance of the State during the year 2010-11. 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 both well performing as well as ill performing schemes/programmes of the Government. To give a perspective to the analysis, an effort has been made to compare the achievements with the targets envisaged by the State Government in the Budget estimates of 2010-11 and projections made by the Twelfth/Thirteenth Finance Commissions.

Based on the audited accounts of the Government of Meghalaya for the year ending March 2011, this report provides an analytical review of the Annual Accounts of the State Government. The report is structured in three Chapters.

The Report

Chapter I is based on the audit of Finance Accounts and makes an assessment of Meghalaya Government's fiscal position as on 31 March 2011. It provides an insight into trends in committed expenditure, borrowing pattern besides 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 it 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 Meghalaya Government's compliance with various reporting requirements and financial rules.

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

Audit findings

❖ ***Return to fiscal correction***

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit – indicated that though the State successfully maintained revenue surplus during the last five-year period ending 2010-11, compared to the previous year, it declined during 2010-11. The fiscal deficit of the State has also significantly increased during 2010-11 compared to the previous year and the primary surplus of 2009-10 turned into a primary deficit.

❖ ***Revenue Receipts***

Revenue receipts during 2010-11 grew by 23.59 *per cent* (₹ 813.13 crore) over the previous year. The tax revenue and non-tax revenue receipts exceeded normative assessment made by Thirteenth Finance Commission (ThFC) by 16.73 *per cent* and 6.34 *per cent* respectively. Central transfers comprising State's share of central taxes and grants-in-aid from the Government of India increased by ₹ 659 crore in 2010-11 and contributed around 81 *per cent* of the incremental revenue receipts during the year, indicating that central transfers were the main reason for increase in revenue receipts of the State.

The total loss of revenue due to understatement/short levy/non-levy of taxes, *etc.*, which was in excess of 31 *per cent* of the State's own resources consisting of tax and non-tax revenue during 2010-11, indicates the presence of loopholes in resource mobilisation. The percentage of expenditure on collection of taxes/VAT was much higher than the all India average percentage.

❖ ***Revenue / Capital / Total Expenditure***

The overall revenue expenditure of the State increased by 110.44 *per cent* from ₹ 1,907 crore in 2006-07 to ₹ 4,013 crore in 2010-11. The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure increased only by 0.44 *per cent* in the current year over the previous year it hovered around 85 *per cent* during the period (2006-11) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at ₹ 2,546 crore in 2010-11 constituted 63.44 *per cent* and remained significantly higher than the normatively assessed level of ₹ 1,999 crore by ThFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of revenue expenditure and was about 53 *per cent* during 2010-11. During 2010-11, though the development expenditure (₹ 3,260 crore) increased by ₹ 735 crore (29 *per cent*), it was much below the budget estimate (₹ 3,562 crore) for 2010-11. The relative share of revenue development expenditure was 83 *per cent* of the total development expenditure, while this share in respect of capital development expenditure was only 16 *per cent.* Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services.

❖ ***Government investments***

The average return on Meghalaya Government's investments in Statutory Corporations, Government Companies and Co-operative Societies was less than one *per cent* during 2006-11, whereas its average interest outgo was in the range of 6.32 to 7.62 *per cent*.

❖ *Debt sustainability*

During 2010-11, there was deterioration in all the three major fiscal indicators, *viz*., revenue surplus, fiscal deficit and primary deficit over the previous year. The fiscal liabilities of the State Government increased by ₹ 285 crore (7.49 *per cent*) from ₹ 3,803 crore in 2009-10 to ₹ 4,088 crore in 2010-11. The prevalence of fiscal deficit during 2006-11 indicates continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State over this period, which stood at 27.11 *per cent* of the GSDP in 2010-11.

The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise additional resources both through tax and non tax measures in the ensuing years.

❖ *Funds transferred directly by GOI to the State Implementing Agencies*

Funds flowing directly to the implementing agencies through off-budget route inhibit fiscal responsibility legislation requirements of transparency and therefore escape accountability. During the current year, GOI transferred ₹ 798 crore (approximate) directly to the State Implementing Agencies for implementation of various schemes/programmes without routing the amount through the State Budget. A system has to be urgently put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).

❖ *Financial management and budgetary control*

During 2010-11, there was an overall saving of ₹ 883.25 crore, which was the result of saving of ₹ 1,118.63 crore offset by excess of ₹ 235.38 crore. The excess of ₹ 235.38 crore requires regularisation under Article 205 of the Constitution of India. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were either not surrendered or surrendered on the last day of the year leaving no scope for utilising these funds for other development purposes. In many cases, reconciliation of expenditure figures was not done by the controlling officers. Budgetary procedure and expenditure control of the Government was weak.

❖ *Financial reporting*

State Government's compliance with various rules, procedures and directives was unsatisfactory as evident from delay in furnishing utilisation certificates for grants given by Government departments. Delays also figured in submission of annual accounts by some autonomous bodies. Also, there were instances of losses and misappropriations.

RECOMMENDATIONS

Revenue Receipts: The State Government should mobilise additional resources both through tax and non-tax sources by expanding the tax base and rationalising the user charges. The State should also make efforts to increase tax compliance, reduce tax administration costs and avoid leakages of revenue.

Greater priority to capital expenditure: Expenditure pattern of the State Government needs correction in the ensuing years. The State should initiate action to restrict the components of non-plan revenue expenditure. From the point of view of improving developmental expenditure, it is pertinent for Government of Meghalaya to take appropriate measures and lay emphasis on provision of development capital expenditure.

Government investments: Considering the low return on investment in Statutory Corporations, Government Companies and Co-operatives, the State Government should ensure better value for money in investments by identifying the companies/corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non-revenue generating investments through clear and transparent guideline. It would also be prudent to review the working of State public sector undertakings which are incurring huge losses and work out either a revival strategy (for those that are strategic in nature and can be made viable) or close them down if they are not likely to be viable given current market conditions.

Debt sustainability: Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the ThFC to bring Fiscal Liabilities-GSDP ratio to 25 *per cent* could be achieved in four years. Maintaining a calendar of borrowings to avoid bunching towards the end of the fiscal year and a clear understanding of the maturity profile of debt payments will go a long way in prudent debt management. Efforts should also be made to increase revenue surplus and return to primary surplus as was the case during 2009-10.

Funds transferred directly from the GOI to the State implementing agencies: Direct transfers from the Union Government to the State Implementing Agencies runs the risk of poor accountability. As such, a system should be put in place to ensure proper accounting of these funds which remain outside the State budget.

Financial management and budgetary control: Efforts should be made by all departments to submit realistic budget estimates keeping in view the trends in receipts and expenditure in order to avoid large scale savings/excess. Savings should be surrendered as and when they are noticed and within the prescribed date. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

Financial reporting: Departments should ensure timely submission of utilisation certificates for the grants released for specific purposes and the annual accounts of autonomous bodies. Departmental enquiries in all fraud/misappropriation cases should be expedited and internal controls strengthened to prevent such cases.