

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Report

Based on the audited accounts of the Government of Meghalaya for the year ended 31 March 2019, this Report provides an analytical review of the finances of the State Government. 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 2019. It broadly presents and analyses the State Government's resources and their applications.

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

Chapter III gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during 2018-19.

2 Audit Findings

2.1 Finances of the State Government

The fiscal position of the State is reviewed in terms of key fiscal parameters – Revenue Deficit, Fiscal Deficit, Primary Deficit. During 2018-19, the State failed to maintain a Revenue Surplus as in the preceding year (Revenue Surplus of ₹ 850.80 crore) and instead there was Revenue Deficit of ₹ 537.32 crore. The Fiscal Deficit of the State had increased significantly during 2018-19 compared to previous year. Primary surplus turned into Primary Deficit during the current year.

The prevalence of Fiscal Deficit during 2014-19 indicated continued reliance of the State on borrowed funds, resulting in increasing the fiscal liabilities of the State over the period 2014-19. Fiscal liabilities increased by 12 *per cent* during 2018-19 compared to previous year. The fiscal liabilities during 2018-19 stood at 30.89 *per cent* of the GSDP during the current year against 30.81 *per cent* during 2017-18 and exceeded the limit of total outstanding Debt-GSDP ratio projected by XIV FC (27.86 *per cent*) for the year. Debt Repayment as a percentage of Tax Revenue ranged between 151 *per cent* and 236.46 *per cent* during 2014-19.

Central tax transfers comprising State's share of Union taxes and duties from Government of India continued to be a key factor in the increase in revenue receipts of the State. The Central Tax Transfers increased by 254 *per cent* during 2014-19 and constituted 50.31 *per cent* of the revenue receipts of the State during 2018-19. The State's own resources (Tax and Non-Tax Revenue) (₹ 2,220.94 crore) during 2018-19 increased by 22.25 *per cent* over previous year and constituted 22.85 *per cent* of the revenue receipts (₹ 9,718.62 crore) during 2018-19.

The State could not meet the targets set (₹ 2,365 crore) by the XIV FC as the Tax Revenue (₹ 1,793.24 crore) fell short of normative assessment made by XIV FC by 24.18 *per cent* and the Non-Tax Revenue (₹ 427.70 crore) was 48.72 *per cent* lower than the target of XIV FC (₹ 834 crore).

The expenditure pattern of the State revealed that the Revenue Expenditure as a percentage of Total Expenditure hovered around 86 *per cent* during the period (2014-19) leaving inadequate resources for creation of assets.

Capital Outlay during 2018-19 (₹ 1,417.28 crore) increased by ₹ 433.84 crore (44.11 *per cent*) over previous year and fell short by 31.39 *per cent* (₹ 648.31 crore) of the projection (₹ 2,065.59 crore) made by the State Government in its Budget Estimate for the year. Share of Capital Outlay to total expenditure during 2014-15 decreased from 15.06 *per cent* (2014-15) to 12.05 *per cent* (2018-19) despite more than three-fold increase in the Central Tax Transfer during the same period from ₹ 1,381.69 crore (2014-15) to ₹ 4,889.07 crore (2018-19).

The average return on Meghalaya Government's investments (₹ 2,638.43 crore) in Statutory Corporations, Government Companies and Co-operative Societies was less than one *per cent* during 2014-19, whereas the average interest payment on Government borrowings was in the range of 6.22 to 6.70 *per cent*. The State Government should review the performance of the above units. The Meghalaya FRBM Act 2006, also provides that the State Government should review the performance of the State PSUs including restructuring of those that are absolutely essential and close those which are no longer viable.

Therefore, it is recommended that the State Government may review the working of the units¹ which were incurring losses and take appropriate action to avoid further financial burden on the Government.

(Chapter I)

2.2 Financial Management and Budgetary Control

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

The overall saving of ₹ 3,232.63 crore during 2018-19 was the result of saving of ₹ 3,456.68 crore in 59 Grants and seven Appropriations under Revenue Section, 25 Grants and two Appropriations under Capital Section. This was offset by excess of ₹ 224.05 crore in one Grant under Revenue Section.

There was excess expenditure over the budget allocation amounting to ₹ 2,176.83 crore pertaining to the years from 1971-72 to 2017-18 which was yet to be

¹ Statutory corporations, Government companies and co-operative Banks/Societies.

regularised as of December 2019. The excess expenditure over grants is a serious matter as it is a violation of the will of the Legislature which calls for fixing of responsibility to discourage this practice.

Out of the total savings of ₹ 3,232.63 crore, ₹ 2,862.41 crore (88.55 per cent) was surrendered during the year and the balance savings of ₹ 370.20 crore (11.45 per cent) remained un-surrendered, which indicated inadequate budgetary control.

There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were not surrendered. All this shows that budgetary procedure and expenditure monitoring and control of the Government was weak.

(Chapter II)

2.3 Financial Reporting

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

There were delays in furnishing utilisation certificates for grants given by Government departments. Delays were also noticed in submission of annual accounts by some autonomous bodies. The total amount of labour cess collected by the Meghalaya Building and Other Construction Worker's Welfare Board was ₹ 137.70 crore while the total amount spent since inception till 2018-19 was only ₹ 4.13 crore (3 per cent). There were also 74 instances of loss and misappropriation.

(Chapter III)

Recommendations

It is recommended that:

- *The Government should exercise fiscal prudence to contain Revenue Expenditure and should seek to mobilise additional resources both through tax and non-tax sources to bring down its fiscal deficit and maintain revenue surplus.*
- *Efforts should be made to increase the developmental expenditure in order to improve the productive capacity of the State's economy.*
- *State Government should review the working of the loss making corporations, companies and co-operative societies and take appropriate action to avoid further financial burden.*
- *Thorough review of incomplete projects should be undertaken so that the projects are completed in time to achieve the desired objectives.*
- *The Government needs to enforce strict compliance to the timelines for submission of the UCs by the recipients and failure to comply with the timelines should be scrupulously dealt with. Action against erring officials needs to be initiated.*

