



EXECUTIVE SUMMARY

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The Report

The State Finances Audit Report of the Government of Meghalaya for the year ended 31 March 2022 provides an analytical review of the finances of the State Government. This report is primarily based on an analytical assessment of the audited accounts of the Government for the year ended 31 March 2022. The Report has four Chapters:

Chapter I gives the Overview of the finances of the State Government.

Chapter II is based on the Finance Accounts and makes an assessment of the finances of the State Government as on 31 March 2022.

Chapter III is based on audit of Appropriation Accounts and reviews the budgetary management of the State Government.

Chapter IV contains observations on the quality of accounts and financial reporting practices.

2 Audit Findings

2.1 Fiscal Position

The fiscal position of the State is reviewed in terms of key fiscal parameters – Revenue Deficit/ Surplus, Fiscal Deficit/ Surplus and the ratio of Outstanding Debt to Gross State Domestic Product (GSDP).

The State achieved a growth rate of 8.96 *per cent* of GSDP during 2021-22, as compared to negative growth rate of 0.15 *per cent* during 2020-21. The GSDP growth rate indicated that the economy had achieved the growth levels of pre pandemic years during 2018-19 and 2019-20, after the downturn of 2020-21.

However, the increase of GSDP of Meghalaya (8.96 *per cent*) was lower than of national Gross Domestic Product (GDP) (19.51 *per cent*), indicating that there is a need for further infusion of capital investment, especially in the services sector which is a major contributor to the GSDP.

Both revenue receipts and revenue expenditure were higher than the previous year, though in comparison to the budget estimates they fell short by 6.29 *per cent* and 2.41 *per cent* respectively. Higher growth of revenues – both tax and non-tax revenues, and increase in Grants-in-Aid and other contributions, as well as enhanced share of union taxes and duties contributed towards revenue surplus of ₹ 653.92 crore. The budget estimates, however, had projected a surplus of ₹ 1,275.32 crore, indicating that the government had expected a higher revenue collection, but the actual tax revenue fell short by 11 *per cent* and non-tax revenue was short of budget estimates by 24 *per cent*. The overall shortfall in revenue receipts over budget estimates was more than five *per cent* and was

pegged at 6.29 *per cent*. While the state's share in union taxes and duties is a function of overall economic growth at national level leaving little fiscal space for the State government to manoeuvre, the State has a considerable dependence on Grants-in-Aid and other contributions from the Union. Thus, a shortfall of 29 *per cent* in the receipts under grants in aid, over estimated value, is bound to have impacted the allocations to key sectors of the economy. Surplus on revenue account was partly a result of actual revenue expenditure being 2.42 *per cent* lower than the budget estimates.

In the capital budget, the receipts of ₹ 4,044.36 crore exceeded the Budget Estimates (BEs) by ₹ 1,766.65 crore during the year, showing an increase of 78 *per cent* over the estimated values. However, both Capital Expenditure at ₹ 2,837.12 crore and capital outlay at ₹ 2,751.79 crore, were short of the BEs by ₹ 529.75 crore and ₹ 64.71 crore respectively. The overall capital expenditure as percentage of GSDP was 7.50 *per cent*, as compared to 5.23 *per cent* in the previous year. This indicated that borrowed capital was being channelled towards financing of the government's revenue expenditure.

As far as fiscal deficit was concerned, at 5.71 *per cent* during 2021-22, it was higher than the target of 4-4.5 *per cent* set in the Meghalaya Fiscal Responsibility and Budget Management (FRBM) (Amendment) Act, 2022. In monetary terms, the Fiscal Deficit was pegged at ₹ 2,158.79 crore which was higher by ₹ 97.41 crore (4.73 *per cent*) than the assessment made in the BEs of ₹ 2,061.38 crore. The Primary Deficit was pegged at ₹ 1,195.52 crore which was higher by ₹ 181.00 crore (17.84 *per cent*) than the assessment made in the BEs, indicating a growing interest payment burden on the state's finances. Over the last five-year period, the ratio of total outstanding debt as percentage of GSDP has consistently been above the target ratio of 28 *per cent* of GSDP.

Recommendations

- *In order to achieve comparative growth rate as at the national level, the State Government should make efforts to improve its capital spending which will act as a facilitator for private investment in all sectors of the economy.*
- *State Government needs to make efforts to achieve the projections/ targets on major fiscal parameters, made in the Meghalaya FRBM Act through prudent financial management.*

(Chapter I)

2.2 Finances of the State

Analysis of state of finances of the Government of Meghalaya, in terms of its total receipts and expenditure for the financial year (FY) 2021-22 shows that the State turned into a Revenue Surplus State, from being a revenue deficit state during FY 2018-19 to 2020-21.

Revenue Receipts increased by 19.51 *per cent* from ₹ 9,273.48 crore in 2017-18 to ₹ 14,274.14 crore in 2021-22 at an average compound annual growth rate of 11.39 *per cent*. During 2021-22, the state's own revenue contributed approximately 19.79 *per cent* of the Revenue Receipts, while Central Tax Transfers and Grants-in-

Aid together contributed 80.21 *per cent*. The contribution of central tax transfers and grants in aid in the total revenue kitty of the State over the past five years between 2017-22 has ranged between 74.28 *per cent* to 80.41 *per cent*. Thus, while State's own share of revenue has grown by about 20 *per cent* over the past five years, Central Tax Transfers and Grants-in-Aid continued to be the main source of Revenue Receipts for the State of Meghalaya, as for the other North-Eastern States.

Revenue Expenditure during 2021-22 which was ₹ 13,620.22 crore increased by 18.45 *per cent* compared to the previous year. The substantial increase in Revenue Expenditure was due to increased interest payments, medical and public health expenditure, Family Welfare expenditure and assistance to Power sector. Revenue expenditure as a proportion of total expenditure remained above 80 *per cent* indicating that lion's share of Government spending was on current expenditure on payment of wages and salaries, pension, rent and rates and payment of interest on outstanding debt.

Revenue expenditure as percentage of revenue receipts was 95.42 *per cent* indicating that more than 95 *per cent* of revenue receipts went into financing revenue expenditure. However, decrease in Revenue Expenditure as percentage of Revenue Receipts from 107.63 *per cent* in 2020-21 to 95.42 *per cent* in 2021-22 has improved the Fiscal Deficit gap from 7.79 *per cent* in 2020-21 to 5.71 *per cent* in 2021-22.

Capital outlay during 2021-22 was ₹ 2,751.79 crore and increased by 58.69 *per cent* over the previous year. Capital Expenditure as a percentage of total expenditure has remained stagnant at 15 *per cent* over the period 2017-18 to 2021-22.

As on 31 March 2022, there were 124 incomplete projects which had over-shot their schedules by one to more than 10 years. The expenditure incurred on these 124 incomplete projects was ₹ 796.15 crore.

Receipts in public account (₹5,098.35 crore) exceeded the disbursements (₹ 4,948.45 crore) by ₹ 149.90 crore during 2021-22.

As on 31 March 2022, the State Disaster Response Fund (SDRF) had an unutilised balance of ₹ 152.03 crore. As the SDRF is an interest bearing Reserve Fund, the liability of interest payment rests with the State Government. Non-payment of interest amounting to ₹ 0.28 crore resulted in overstatement of Revenue Surplus to that extent.

During 2021-22, the State Government issued guarantees of ₹ 2,980.44 crore. However, the State Government did not receive any amount towards guarantee commission. Guarantee Commission works out to ₹ 15.24 crore during 2021-22. The accumulated balance of outstanding Guarantee Commission Fee was ₹ 79.19 crore as on 31 March 2022.

The prevalence of Fiscal Deficit during 2017-22 indicated continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State over the period 2017-22. Fiscal liabilities increased by ₹ 1,862.35 crore (13.67 *per cent*) during 2021-22 compared to previous year. The fiscal liabilities during 2021-22 stood at 40.92 *per cent*

of the GSDP and exceeded the limit of total outstanding Debt-GSDP ratio target (28 per cent) fixed in the State FRBM Act, 2006.

Cash Balances of the State Government at the end of the current year decreased by ₹ 205.16 crore from ₹ 162.49 crore in 2020-21 to (-) ₹ 42.67 crore in 2021-22. Cash Balance investment decreased from ₹ 81.10 crore in 2020-21 to ₹ 16.87 crore in 2021-22.

Recommendations

- *State Government needs to make sincere efforts to augment its own resources and reduce its over-dependence on Government of India (GoI) funds*
- *State Government should take corrective action for quick completion of incomplete projects in order to avoid time and cost overrun besides blockade of funds. Stringent actions should be taken against defaulting contractors in the form of levying penalty clauses and blacklisting of the contractors.*

(Chapter II)

2.3 Budgetary Management

Against total budget allocation of ₹ 20,390.22 crore, the expenditure was ₹ 18,883.97 crore (92.61 per cent) of the total budget allocation. Therefore, the supplementary provision of ₹ 2,786.99 crore could not be utilised fully. Out of the gross savings of ₹ 3,086.92 crore, ₹ 2,731.01 crore (88.47 per cent) was surrendered on the last working day of March 2022, in violation of Budget Rules.

There were four instances where expenditure of ₹ 1,249.55 crore was incurred without authority of law, unnecessary supplementary provision of ₹ 213.36 crore in 15 cases.

During the current year, expenditure under four Grants amounting to ₹ 1,580.67 crore (two Grants under Revenue Section and two Grants under Capital Section) was in excess of authorisation and require regularisation under Article 205 of the Constitution. Excess expenditure of ₹ 1,762.38 crore (from 1971-72 to 2020-21) was yet to be regularised as on 31 March 2022.

During the year 2021-22, there was misclassification of expenditure as Government of Meghalaya incorrectly booked expenditure of ₹ 18.11 crore under Capital Section instead of Revenue Section and ₹ 2.00 crore under Revenue Section instead of Capital Section as had been determined from the purpose of expenditure.

Recommendations

- *Finance Department may provide supplementary Grants only after proper scrutiny and realistic assessment of requirements of the concerned Departments, to avoid under or overspending by them.*
- *The Grants showing persistent savings may be reviewed by concerned departments to ascertain and address the cause for such savings.*

- *The Finance Department may ensure that the cases of expenditure in excess without budgetary provisions are avoided as it undermines Legislative Authority.*
- *Excess expenditure remaining un-regularised for prolonged periods need to be viewed seriously as this dilutes parliamentary control over the exchequer. The State Government should also ensure that the excess expenditure is regularised at the earliest.*

(Chapter III)

2.4 Quality of accounts and financial reporting practices

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

As on 31 March 2022, 307 Utilisation Certificates (UCs) for ₹ 2,373.52 crore were outstanding for submission. Since huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds, the State Government should monitor this aspect closely and not only hold the concerned persons accountable for submission of UCs in a timely manner to the Finance Department as well as PAG (A&E) but review disbursement of further Grants to defaulting Departments.

As of March 2022, 35 Detailed Countersigned Contingent (DCC) bills amounting to ₹ 4.50 crore were outstanding. Major defaulter in this regard is the Election Department where AC bills of ₹ 3.25 crore (72.22 per cent) remained outstanding as of 31 March 2022.

During 2021-22, the State Government booked an expenditure of ₹ 2,858.39 crore under Minor Head 800 under 42 Revenue and Capital Major Heads of Accounts, constituting 17.46 per cent of the total Revenue and Capital Expenditure of ₹ 16,372.02 crore. It was further observed that the State Government was providing budget provision/SGs / re-appropriations and booked expenditure under Minor Head-800 in spite of availability of suitable Sub-Heads. Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

In the absence of annual accounts and their audit, proper utilisation of grants and loans disbursed to bodies and authorities and their accounting cannot be assured. It is observed that annual accounts of three autonomous bodies were outstanding since 2016-17 and accounts of Autonomous District Council (ADCs) for two to six years. Similarly, as on 30 September 2022, 35 accounts of 20 working PSEs were in arrears for one to six years. Out of the total arrears of 35 accounts for 2021-22, Meghalaya Transport Corporation (MTC) and Forest Development Corporation of Meghalaya Ltd. has maximum accounts in arrears for six and five years respectively. This requires urgent intervention at the highest level in order to have a realistic and timely assessment of their financial position and review of financial assistance to these bodies, authorities and PSUs due to arrears in their accounts.

There were also 72 instances of theft, misappropriation and loss involving Government money amounting to ₹ 113.87 lakh.

Recommendations

- *An accountability framework for submission of UCs in a timely manner to the Finance Department and PAG (A&E) may be put in place. Further disbursement of grants to Departments may strictly be linked to submission UCs.*
- *The Finance Department should, in consultation with the Principal Accountant General (A&E), conduct a comprehensive review of all items presently appearing under Minor Head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate heads of account.*
- *Finance Department should consider evolving a system to expedite the process of compilation and submission of Annual Accounts by Government Bodies, Authorities, Autonomous Bodies and PSUs in order to have a realistic and timely assessment of their financial position. They should review further financial assistance to those entities who are in arrears of their Annual Accounts.*

(Chapter IV)