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 2009-10. 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 Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 as well as in the Budget estimates of 2009-10. A comparison has been made to see whether the State has given adequate fiscal priority to developmental, social sector and capital expenditure compared to other North Eastern States, and whether the expenditure has been effectively absorbed by the intended beneficiaries.

The Comptroller and Auditor General's (C&AG) civil audit reports step in to fill this gap. C&AG's reports have been commenting upon the Government's finances for two years since the MFRBM legislation and have published two reports already. Since these comments formed part of the civil audit report, it was felt that the audit findings on State finances remained camouflaged in the large body of audit findings on compliance and performance audits. The obvious fallout of this well-intentioned but all-inclusive reporting was that the financial management portion of these findings did not receive proper attention. In recognition of the need to bring State finances to center-stage once again, a stand-alone report on State Government finances is considered as an appropriate audit response to this challenge. Accordingly, from the report year 2008-09 onwards, C&AG has decided to bring out a separate volume titled "Report of the Comptroller and Auditor General of India on State Finances". This Report is the second in this endeavour.

Based on the audited accounts of the Government of Meghalaya for the year ending March 2010, 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 at 31 March 2010. 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 the State not only maintained revenue surplus during the last five-year period ending 2009-10, but also the revenue surplus reached its peak during the current year. The fiscal deficit of the State has also significantly reduced during 2009-10 compared to previous year and the primary deficit of 2008-09 turned into a primary surplus.

❖ *Revenue Receipts*

During the current year the revenue account increased by ₹ 1,700 crore over 2005-06 and the growth of revenue receipts was 23 *per cent* over the previous year. The increase was mainly contributed by grants-in-aid from the Government of India (31 *per cent*), non-tax revenue (22 *per cent*), tax revenue (20 *per cent*) and State's share of Union Taxes and Duties (3 *per cent*). *The revenue receipts at ₹ 3,447 crore was higher by ₹ 435 crore than the assessment made by the State Government in its Fiscal Correction Path (FCP) (₹ 3,012 crore).*

The total loss of revenue due to understatement/short levy/non-levy of taxes, *etc.*, which was around 26 *per cent* of the State's own resources consisting of tax and non-tax revenue during 2009-10, indicates the presence of loopholes in resource mobilization. Pending revenue arrears constituted over 20 *per cent* of tax revenue of the State during 2009-10.

❖ *Revenue / Capital / Total Expenditure*

The revenue expenditure of the State increased by 90 *per cent* from ₹ 1,674 crore in 2005-06 to ₹ 3,182 crore in 2009-10 and constituted 86 *per cent* of total expenditure during 2009-10. The non-plan revenue expenditure (NPRE) increased by 27.31 *per cent* over the previous year. The NPRE exceeded the normative assessment made by TFC and assessment made by Government in its FCP by 38.10 *per cent* and 29.79 *per cent* respectively. The growth of plan revenue expenditure during 2009-10 declined to 4.08 *per cent* against 39.53 *per cent* during the previous year.

The expenditure on salaries during the year 2009-10 was 6.14 *per cent* higher than the assessment made in FCP (₹ 1,157 crore). Pension payments during the year exceeded the normative assessment made by Twelfth Finance Commission (TFC) and by State Government in its FCP by 61 *per cent and* 58 *per cent* respectively.

The capital expenditure during 2009-10 (₹ 481 crore) decreased by 9.42 *per cent* over the previous year and was also lower by 12.7 *per cent* than that projected in FCP (₹ 551 crore) and constituted only 13 *per cent* of total expenditure during the year (₹ 3,690 crore).

During 2009-10, though the State Government earmarked 74.87 *per cent* of the estimated aggregate expenditure for development expenditure, this assessment fell short by around 6.44 *per cent* at the end of the year. However, the ratio of development expenditure as a proportion to aggregate expenditure for Meghalaya is higher than NE States average which indicates that the State is giving higher priority to this category of expenditure as compared to other NE States.

❖ *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 2005-10, whereas its average interest outgo was in the range of 6.32 to 8.06 *per cent*. This is obviously an unsustainable proposition.

❖ *Prudent cash management*

The cost of holding surplus cash balances is high. Interest received on investment of cash balances was only 4.12 *per cent* (₹ 20.68 crore) during 2009-10, while the Government raised open market loans at interest rates of 7.8 to 8.27 *per cent* per annum.

❖ *Debt sustainability*

The fiscal liabilities of the State Government increased by ₹ 230 crore (6.44 *per cent*) from ₹ 3,573 crore in 2008-09 to ₹ 3,803 crore in 2009-10. The prevalence of fiscal deficit during 2005-10 indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 30.42 *per cent* of the GSDP in 2009-10 and would further increase to 38.05 *per cent* after incorporating the contingent liabilities in the fold of total liabilities on Consolidated Fund of the State during the year and appears to be quite high especially if compared with the limit of 28 *per cent* prescribed in the MFRBM Act, 2006.

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

GOI directly transferred ₹ 534 crore to the State Implementing Agencies during 2009-10. Funds flowing directly to the implementing agencies through off-budget routing inhibit FRBM requirements of transparency and therefore bypass accountability. 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 2009-10, there was an overall saving of ₹ 1,056.41 crore, which was the result of saving of ₹ 1,106.12 crore offset by excess of ₹ 49.71 crore. The excess of ₹ 49.71 crore requires regularisation under Article 205 of the Constitution of India. Three grants, *viz.* 'North Eastern Areas', 'Welfare of Scheduled Castes, *etc.*' and 'Co-operation, *etc.*' posted large savings persistently for the last five years. There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. Rush of expenditure at the end of the year is another chronic feature noticed in the overall financial management. 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. Detailed bills were not submitted for large amount of advances drawn on abstract contingent bills within the stipulated time limit. Budgetary controls should be strictly observed to avoid such deficiencies in financial management. Last minute fund releases and issuance of re-appropriation/ surrender orders should be avoided.

❖ *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. There were instances of losses and misappropriations. Departmental enquiries in such cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases in future.

Recommendations

Return to fiscal correction: The State should make efforts to increase tax compliance, collect revenue arrears, reduce tax administration costs and avoid leakages of revenue.

Greater priority to capital expenditure: The State may consider enhancing the priority it gives to capital expenditure as a proportion of Aggregate Expenditure as this ratio is lower for Meghalaya than the NE State Average.

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 invested. Projects which are justified on account of low financial but high socio-economic return may be identified and prioritized with full justification. 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 down (if they are not likely to be viable given current market conditions).

Debt sustainability: The Government of Meghalaya should endeavour to achieve the total liabilities-GSDP ratio as specified in the MFRBM Act which states that the total liabilities on the Consolidated Fund of the State should not be more than 28 *per cent* of GSDP. Efforts should be made to maintain the state of primary surpluses and increase revenue surplus. 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.

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.