EXECUTIVE SUMMARY

Executive Summary

The Report

The State Finances Audit Report of the Government of Meghalaya for the year ended 31 March 2020 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 2020. The Report has five 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 2020.

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.

Chapter V presents the financial performance of the State Public Sector Enterprises (SPSE) which consist of 'Government Companies', 'Statutory Corporations' and 'Government Controlled Other Companies'.

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 GSDP.

Gross State Domestic Product (GSDP) of Meghalaya during 2019-20 was ₹ 36,572 crore and had increased by ₹ 3091 crore (nine *per cent*) over the previous year. Service sector was the main driver of the State GSDP with more than half the share. The overall sectoral composition of the State GSDP for the period 2015-20, did not show any major changes, except that the Agriculture's share in the GSDP declined sharply from 23.75 *per cent* to 19.39 *per cent.*

The State's Revenue Receipt (₹ 9413.52 crore) as well as the Revenue Expenditure (₹ 9565.12 crore) fell short of the revised budget estimate by ₹ 5024 crore (35 *per cent*) and ₹ 4134 crore (30 *per cent*) respectively.

Though the State Government had planned for a Revenue Surplus of ₹ 738 crore as per forecast in the revised budget estimates, they ended with a revenue deficit of ₹ 152 crore at the end of the financial year. The fiscal deficit (₹ 1104 crore) was lower than the assessment made in the revised budget estimate by ₹ 219 crore (17 *per cent*) while the primary deficit (₹ 1862 crore) was higher than the assessment made in the revised budget estimate by ₹ 1286 crore (223 *per cent*).

The State was successful in containing the Fiscal Deficit below three *per cent* of GSDP in three out of the last five years, however, during the current year it remained around three *per cent.*

Recommendations

- *The main driver of the State GSDP is the Service Sector, which accounts for more than half of the GSDP. The rate of growth of this Sector has however stagnated over the last five years. As tourism is one of the important service sectors in the State of Meghalaya, the State Government should take steps to create infrastructure for tourism development and also act as a facilitator for private investment in the sector which will help in promoting economic growth of the State.*
- *The State should also increase its outlay under Agriculture Sector so as to boost agriculture activities and overcome the declining trend in its share to GSDP.*
- *Though the magnitude of Revenue Deficit and Fiscal Deficit has come down during 2019 as compared to the previous year, earnest efforts are required to further increase State's own revenue receipts and increase developmental expenditure.*
- *The State needs to augment its resources and spend more on creation of capital assets.*

(Chapter I)

2.2 Finances of the State

Revenue Receipts during 2019-20 were ₹ 9413.52 crore and had decreased by 3.14 *per cent* (₹ 305.10 crore) over the previous year, even though the own tax revenue, of the State (₹1891.25 crore) increased by 5.47 *per cent* (₹ 98.01 crore). The Goods and Services Tax (GST) registered an increase of ₹ 103.82 crore (12.88 *per cent*), over the previous year and the collections were ₹ 909.78 crore. The Central tax transfers decreased by ₹ 677.29 crore (13.85 *per cent*) during 2019-20 compared to previous year. The Central tax transfers, however, contributed 74.28 *per cent* of the revenue receipts during the year, indicating their predominance in revenue receipts of the State.

The Revenue Expenditure during 2019-20 which was ₹ 9565.12 crore decreased by 6.74 *per cent* compared to the previous year. The expenditure pattern of the State continued to be largely revenue in nature, being at an average of 87 *per cent* of the total expenditure over the period 2015-20. Revenue expenditure as percentage of total expenditure increased from 87.19 *per cent* in 2018-19 to 90.68 *per cent* in the current year. Expenditure on salaries and wages was ₹ 3440.17 crore (35.97 *per cent*). The pension payments, including other retirement benefits, were ₹ 1131.56 crore, an increase of 12.60 *per cent* over the previous year. The interest payments were ₹ 758.51 crore which was almost 8.00 *per cent* of the total revenue expenditure. The State Government had reduced its Revenue Expenditure and was able to maintain its fiscal deficit targets, but the same was at the cost of development expenditure under Social and Economic Services and not as a result of Prudential Financial Management Policies.

Capital outlay during 2019-20 was ₹ 939.71 crore and declined by 33.70 *per cent* over the previous year. Capital expenditure as a percentage of total expenditure has declined from 15 *per cent* in 2015-16 to 9 *per cent* in 2019-20.

The Government's total investment in their Companies/Corporations stood at ₹ 2648.49 crore as of 31 March 2020. However, the return on investment has been less than one *per cent* during 2015-20, indicating huge financial burden of sustaining and running the State PSUs. As on September 2020, State Government had a cumulative investment of ₹ 225 crore in six companies whose net worth had completely eroded and ₹ 2163.94 crore in four loss making companies.

Out of the 218 incomplete projects as on 31 March 2020, 147 projects had over-shot their schedules by one to more than 10 years. The expenditure incurred on the 147 incomplete projects was ₹ 12163.14 crore. Disbursements in public account (₹ 4046.71 crore) exceeded the receipts (₹ 3866.03 crore) by ₹ 180.68 crore during 2019-20. In respect of Reserve Funds, there was short contribution of ₹ 0.65 crore to the Consolidated Sinking Fund during 2019-20. Against the available fund of ₹ 47.70 crore of the State Disaster Response Fund, the State Government withdrew ₹ 14.00 crore for investment, leaving a balance of ₹ 33.70 crore unutilised at the end of the year. Guarantee Commission fee under Guarantee Redemption Fund, of ₹ 38.79 crore (₹ 38.65 crore pertaining to years upto 2018-19 and addition of ₹ 0.14 crore for the year 2019-20) was not credited to the Government account, thereby overstating the Revenue Deficit by ₹ 0.14 crore.

The prevalence of Fiscal Deficit during 2015-20 indicated continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State over the period 2015-20. Fiscal liabilities increased by ₹ 910 crore (9 *per cent*) during 2019-20 compared to previous year. The fiscal liabilities during 2019-20 stood at 32 *per cent* of the GSDP and exceeded the limit of total outstanding Debt-GSDP ratio target fixed in the Stae FRBM Act, (28 *per cent*). Debt Repayment as a percentage of Debt Receipts ranged between 62 *per cent* and 103 *per cent* during 2015-20.

The State could not meet the targets set (₹ 2798 crore) by the XIV FC as the Tax Revenue (₹ 1891 crore) fell short of the normative assessment made by them by ₹ 907 crore (32 *per cent*) and the Non-Tax Revenue (₹ 530 crore) was 41 *per cent* lower than the target of XIV FC (₹ 903 crore). Revenue Expenditure as a percentage of Total Expenditure hovered around 87 *per cent* during the period (2015-20) leaving inadequate resources for creation of assets.

Cash Balances of the State Government at the end of the current year decreased by ₹ 209.09 crore from ₹ 814.33 crore in 2018-19 to ₹ 605.24 crore in 2019-20. Cash Balance investment decreased from ₹1070.04 crore in 2018-19 to ₹ 801.61 crore in 2019-20. Despite having large cash balances, the State Government had taken recourse to market loans on several occasions during the year leading to further accretion to cash balances without putting it to productive use and increasing the debt liabilities of the State.

Recommendations

- *The State Government needs to further augment its own tax and non-tax revenues to reduce its dependency on Central transfers and Grants and increase its spending.*
- *The Government should adhere to targets of FRBM Act, set for outstanding debts and reduce its reliance on borrowed funds.*
- *The State Government may review its Cash Balances vis-à-vis its market borrowings and put them to productive use.*

(Chapter II)

2.3 Budgetary Management

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.

Against original budget allocation ₹ 16376.94 crore, the expenditure was only ₹ 10967.32 crore (66.97 *per cent,* therefore, making the supplementary provision of ₹ 593.77 crore totally unnecessary. Out of the savings of ₹ 6003.39 crore, ₹ 5242.30 crore (87.32 *per cent*) was surrendered on the last working day of March 2020, in violation of Budget Rules and depriving valuable resources which could have been utilised by other Departments. The savings against budget was the highest in 2019-20, during the last five years, being almost double the amount of unutilised funds during 2018-19. This is indicative of over estimation as well as incapacity of Departments to spend. The Finance Department as overall custodian of Budget had also not done a critical review in time, to prevent these violations and reallocate the funds to needy Departments.

There were two instances (Grant No. 32 and 56) where expenditure (₹ 26.59 crore) was incurred without authority of law, unnecessary supplementary provision of ₹ 449.57 crore in 12 cases, unnecessary re-appropriation of (₹ 0.41 crore) in three cases and transfer of money (₹ 1.74 crore) to Public Accounts to escape lapse of funds.

During the year, expenditure of ₹ 309.80 crore was incurred in excess of authorisation under one Grant and one Appropriation under Revenue Section and one Grant and one Appropriation under Capital Section, which requires regularisation as per Constitutional provisions. It is observed that under Grant 24-Pension & Other Retirement Benefits, there has been excess expenditure consistently during the last five years. Accuracy in estimation under this Grant is not insurmountable, as the pensionary liabilities can be estimated realistically.

Excess expenditure of ₹ 2400.89 crore incurred (from 1971-72 to 2018-19) was pending for regularisation, despite repeated observations in the previous Reports of C&AG. The

State Legislature regularised ₹ 949 crore (March 2021) and a balance of ₹ 1451.84 crore was yet to be regularised.

Recommendations

- *The budgetary exercise requires urgent streamlining by the Finance Department in the State, on account of huge unutilised funds over the years. The Government should consider over hauling the preparation of estimates, which largely remained ambitious and also augment the capacity of the spending departments to utilise earmarked funds on time. Surrenders should be so timed that they can be gainfully utilised by other needy departments where projects continue to languish due to insufficient funds.*
- *The grants showing persistent savings may be reviewed by concerned Departments to ascertain and address the cause for such savings. During 2019-20, persistent saving was noticed in Grant No. 11 – Other Taxes and Duties on Commodities and Services, Power, etc., Grant No.40 – North Eastern Areas, Secretariat Economic Services, etc., Grant No. 19 – Secretariat General Services, Public Works, etc., Grant No. 29 – Urban Development, Housing, etc. and Grant No. 39 – Co-operation, Agriculture Programmes, etc.*
- *Expenditure of ₹26.59 crore was incurred under Grant No. 32 – Civil Supplies, Capital Outlay on Food Storage and Warehousing and Grant No. 56 – Public Works, Roads and Bridges, Capital Outlay on North Eastern Areas, Capital Outlay on Roads and Bridges without any budget provision in the original budget/ supplementary and without any re-appropriation orders to this effect. The Finance Department may ensure that such cases are covered by providing adequate supplementary provision to avoid expenditure without provision in future as it undermines Legislative authority.*
- *The persistent excess expenditure under Grant No. 24- Pension and other Retirement benefits, needs to be reviewed for accurate budgetary estimation.*
- *Excess expenditure remaining un-regularised for prolong period needs to be viewed seriously as this dilutes parliamentary control over the exchequer. The State Government should also ensure that the remaining amount of ₹1452 crore 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.

A substantial amount of GoI funds (₹ 941.83 crore) were received directly by the State implementing agencies, despite GoI decision of 2015 to route all assistance to CSS and ACA under various schemes, through the State Budget and treasury system. As a consequence, the actual State receipt and expenditure as well as other fiscal variables did not present a true picture to that extent.

A large number of UCs were pending for submission. It is observed that 838 UCs for ₹ 3843.37 crore were due for submission during 2019-20 and further there was an increase ₹ 851.30 crore over the previous year balance of ₹ 4299.62 crore. in the pending amount of UCs. Since huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds, it is imperative that the State Government should monitor this aspect closely.

As of March 2020, DCC bills amounting to ₹ 94 crore were outstanding. Major defaulter in this regard is the Election Department where AC bills of ₹ 92 crore remained outstanding as of March 2020.

During the five year period, there was an extensive use of Minor Head 800 under both expenditure and revenue, though it has come down in 2019-20 as compared to 2018-19. 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/ 2017-18. Similarly, accounts of 16 PSUs were in arrears for one to four years, ADCs for two to four years. 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 due to arrears in their accounts.

There were also 72 instances theft, misappropriation and loss involving Government money amounting to ₹ 1.149 crore.

Recommendations

- *Government may hold the concerned persons accountable for submission of UCs in a timely manner and review further disbursal of grants to defaulting Departments.*
- *The Finance Department should, in consultation with the 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 autonomous bodies and departmentally run undertakings in order to have a realistic and timely assessment of their financial position. They should review further financial assistance to PSUs/ ADCs who are in arrears of their Annual Accounts.*

(Chapter IV)

2.5 Functioning of State Public Sector Enterprises

As on 31 March 2020, the State of Meghalaya had 18 SPSEs, which included 16 Government companies (15 working and one non-working) and two Statutory Corporations (all working). As on 31 March 2020, there was a difference of ₹ 592.47 crore in the investment figures of the State Government (Equity: ₹ 132.79 crore; Long-term Loans: ₹ 459.68 crore) as per State Finance Accounts vis-à-vis records of SPSEs.

During 2019-20 the State Government has provided budgetary support of ₹ 263.53 crore to SPSEs in the form of Equity (₹ 135.53 crore), Loans (₹ 2.70 crore) and Grants/subsidy (₹ 125.30 crore). The major recipients of budgetary assistance during 2019-20 were four power sector companies, which received budgetary allocation of ₹ 231.97 crore (87.99 *per cent*) in the form of Equity (₹ 118.18 crore), Loans (₹ 2.70 crore) and Grants/subsidies (₹ 111.09 crore).

The overall losses of power sector SPSEs in last four years have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 478.54 crore (2019-20). Further, the net worth of one SPSE (Meghalaya Power Distribution Company Limited) was negative at (-) ₹ 934.25 crore due to complete erosion of its equity capital by the accumulated losses. Net worth of this SPSE had been negative for last four years since 2016-17 to 2019-20 as per its latest finalised accounts.

The losses of the power sector SPSEs are a drain on the State's economy and resources. Despite the consistent State budgetary support provided by the State Government, aggregating ₹ 430.04 crore to four power sector SPSEs during 2017-18 (₹ 137.26 crore), 2018-19 (₹ 60.81 crore) and 2019-20 (₹ 231.97 crore) by way of equity (₹ 164.98 crore), loans (₹ 35.77 crore) and grants/subsidy (₹ 229.29 crore), their performance has not improved.

During 2019-20, out of 16 working SPSEs (excluding one SPSE which has not finalised its first accounts), three SPSEs earned profits (₹ 2.83 crore) as per their latest finalised accounts. Further, the accumulated losses (₹ 2,159.69 crore) of seven working SPSEs had completely eroded their paid-up capital (₹ 1,147.33 crore).

As on 30 September 2020, all 17 working SPSEs had a total arrear of 29 Accounts ranging from one to four Accounts. The highest number of accounts pending finalisation (four Accounts each) pertained to Meghalaya Transport Corporation and Forest Development Corporation of Meghalaya Limited.

Recommendations

- *The State Government and the SPSEs concerned should take concrete steps to reconcile the differences in the investment figures (Equity and Long term Loans) of the State Government as appearing in the State Finance Accounts vis-à-vis SPSE records in a time-bound manner.*
- *Accumulation of huge losses by seven out of 17 working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review the working of these SPSEs to either improve their profitability or close their operations.*
- *The losses of the Power Sector Companies, need to be critically reviewed to increase their revenues and decrease their losses.*
- *The Administrative Departments overseeing the SPSEs having backlog of Accounts need to ensure that these SPSEs finalise and adopt their Accounts within the stipulated period, failing which financial support to them be reviewed.*

(Chapter V)