

# **EXECUTIVE SUMMARY**



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## The Report

The State Finances Audit Report of the Government of Meghalaya for the year ended 31 March 2021 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 2021. 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 2021.

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 (SPSEs) which consist of 'Government Companies', 'Statutory 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.*

The GSDP at current prices contracted by 3.69 *per cent*, from ₹ 34,716 crore in 2019-20 to ₹ 33,436 crore in 2020-21 as against the assessed growth of 9.50 *per cent* by the XV Finance Commission. The contraction of GSDP of Meghalaya (-3.69 *per cent*) was higher than the national GDP (-2.97 *per cent*).

The main driver of the state GSDP is the Services sector, contributing by more than half to the GSDP.

The State's Revenue Receipts (₹ 10,683.24 crore) as well as the Revenue Expenditure (₹ 11,498.62 crore) fell short of the BEs by ₹ 4669.35 crore (30 *per cent*) and ₹ 2928.96 crore (20 *per cent*) respectively. Similarly, Capital Expenditure (₹ 1815.85 crore) fell short of the BEs by ₹ 1013.60 crore. However, Capital Receipts of ₹ 2469.66 crore exceeded the BEs by ₹ 447.69 crore during the year.

Though the State Government had projected a Revenue Surplus of ₹ 925.01 crore in the BEs, the year ended with a Revenue Deficit of ₹ 815.38 crore. The Fiscal Deficit (₹ 2603.56 crore) was higher than the assessment made in the BEs (₹ 1877.11 crore) by

₹ 726.45 crore (39 per cent) while the Primary Deficit (₹ 1744.64 crore) was higher than the assessment made in the BEs (₹ 1033.94 crore) by ₹ 710.70 crore (69 per cent).

The State failed to achieve the targets set in the MFRBM Act. The Fiscal Deficit of 7.79 per cent in 2020-21 was higher than the fiscal target of 5 per cent. During the five-year period, the ratio of total outstanding debt as percentage of GSDP has steadily been above the target ratio of 28 per cent of GSDP up to 2019-20 and 37.39<sup>1</sup> per cent of GSDP during 2020-21. During 2020-21, it rose by 9 per cent to 40.73 per cent over 31.54 per cent in 2019-20.

### **Recommendations**

- *As the Services sector was the main driver of GSDP, the State Government should continue to act as a facilitator for private investment in this sector and create infrastructure for tourism development which will further augment the economic growth of the State.*
- *The State needs to make efforts to achieve the targets set under MFRBM Act for better fiscal Management.*

**(Chapter I)**

## **2.2 Finances of the State**

Revenue Receipts during 2020-21 were ₹ 10,683.24 crore and had increased by 13.49 per cent (₹ 1269.72 crore) over the previous year and the own tax revenue of the State (₹ 2072.56 crore) increased by 9.59 per cent (₹ 181.31 crore). The Goods and Services Tax (GST) registered a decrease of ₹ 86.97 crore (9.56 per cent), over the previous year and the collections were ₹ 822.81 crore. The Central tax transfers increased by ₹ 339.85 crore (8.07 per cent) during 2020-21 compared to previous year. The Central tax transfers, however, contributed 42.61 per cent of the Revenue Receipts during the year, indicating their predominance in Revenue Receipts of the State.

The Revenue Expenditure during 2020-21 which was ₹ 11,498.62 crore increased by 20.21 per cent compared to the previous year. Revenue Expenditure as percentage of total expenditure decreased from 90.68 per cent in 2019-20 to 86.36 per cent in the current year. Expenditure on salaries and wages was ₹ 3383.67 crore (29.43 per cent). The pension payments, including other retirement benefits, were ₹ 1193.61 crore, an increase of 5.48 per cent over the previous year. The interest payments were ₹ 858.92 crore which was 7.47 per cent of the total Revenue Expenditure. During 2020-21, Revenue Expenditure has increased over the previous year by ₹ 1933.50 crore. The substantial increase in Revenue Expenditure was due to increased interest payments, medical and public health expenditure due to Covid-19 pandemic, rural employment guarantee schemes and various projects (Externally Aided Projects, Community Development Programmes, etc.) under Secretariat Economic Services.

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<sup>1</sup> Set by the Medium Term Fiscal Policy and Strategy Statement of State Budget 2020-21.

Capital outlay during 2020-21 was ₹ 1734.05 crore and increased by 84.53 *per cent* over the previous year. Capital Expenditure as a percentage of total expenditure has remained stagnant at 13 *per cent* over the period 2016-17 to 2020-21.

Out of the 103 incomplete projects as on 31 March 2021, 62 projects had over-shot their schedules by one to more than 10 years. The expenditure incurred on the 103 incomplete projects was ₹ 841.85 crore.

Receipts in public account (₹ 4799.03 crore) exceeded the disbursements (₹ 4594.56 crore) by ₹ 204.47 crore during 2020-21.

As on 31 March 2021, the State Disaster Response Fund (SDRF) had an unutilised balance of ₹ 122.70 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 ₹ 11.38 crore resulted in understatement of Revenue Deficit to that extent.

Under Guarantee Redemption Fund, there was short contribution of ₹ 0.22 crore, resulting in understatement of Revenue and Fiscal Deficit by ₹ 0.22 crore.

During 2020-21, the State Government issued guarantees of ₹ 1975.92 crore. However, the State Government did not receive any amount towards guarantee commission. As such, Guarantee Commission fee of ₹ 25.29 crore (₹ 19.76 crore on the guaranteed amount during the year 2020-21 and ₹ 5.53 crore on outstanding guarantees as on 31 March 2020) was receivable during the year.

The prevalence of Fiscal Deficit during 2016-21 indicated continued reliance of the State on borrowed funds, resulting in increased fiscal liabilities of the State over the period 2016-21. Fiscal liabilities increased by ₹ 2196.95 crore (19.05 *per cent*) during 2020-21 compared to previous year. The fiscal liabilities during 2020-21 stood at 41 *per cent* of the GSDP and exceeded the limit of total outstanding Debt-GSDP ratio target fixed in the State FRBM Act, (28 *per cent* upto 2019-20 and 37.39 *per cent* during 2020-21).

Cash Balances of the State Government at the end of the current year decreased by ₹ 442.75 crore from ₹ 605.24 crore in 2019-20 to ₹ 162.49 crore in 2020-21. Cash Balance investment decreased from ₹ 801.61 crore in 2019-20 to ₹ 81.10 crore in 2020-21.

### **Recommendations**

- *State Government needs to make stringent efforts to mobilise additional revenue resources in order to reduce dependence on debt financing.*
- *The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost overrun with a view to take corrective action. In addition, it should give priority to works nearing completion.*

**(Chapter II)**

## **2.3 Budgetary Management**

Against original budget allocation ₹ 18,999.24 crore, the expenditure was only ₹ 13,802.08 crore (72.65 per cent) of the original allocation. Therefore, the supplementary provision of ₹ 1569.01 crore totally proved unnecessary. Out of the savings of ₹ 5197.16 crore, ₹ 4550.93 crore (85.57 per cent) was surrendered on the last working day of March 2021, in violation of Budget Rules.

The savings of ₹ 5197.16 crore may be seen in the context to over estimation of Receipts of ₹ 17,374.56 crore by the State Government and the estimation on the expenditure side being ₹ 18,999 crore during the year 2020-21. As against the estimated Receipts, the actual Receipts were ₹ 13,152.90 crore only thereby restricting the total expenditure to ₹ 13,802 crore. This implied that the savings were notional, as the funds were not actually available for expenditure.

There were three instances where expenditure of ₹ 104.44 crore was incurred without authority of law, unnecessary supplementary provision of ₹ 1022.48 crore in 21 cases and unnecessary re-appropriations.

During the year, expenditure of ₹ 0.74 crore was incurred in excess of authorisation under one Grant under Revenue Section which requires regularisation as per Constitutional provisions. Excess expenditure of ₹ 1761.64 crore (from 1971-72 to 2019-20) was yet to be regularised as on 31 March 2021.

### **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.*
- *The grants showing persistent savings may be reviewed by concerned Departments to ascertain and address the cause for such savings.*
- *An Expenditure of ₹ 104.44 crore was incurred 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.*
- *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 excess expenditure of ₹ 1762 crore is regularised at the earliest.*
- *Re-appropriation for expenditure of ₹ 169.28 crore incurred without provision in the budget needs regularisation by the State Legislature.*

**(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 (₹ 1345.76 crore) were received directly by the State implementing agencies, despite GoI decision 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 complete picture to that extent.

As on 31 March 2021, 215 UCs for ₹ 1765.86 crore were outstanding for submission. 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 2021, 61 DCC bills amounting to ₹ 63.03 crore were outstanding. Major defaulter in this regard is the Election Department where AC bills of ₹ 62.84 crore remained outstanding as of March 2021.

During 2020-21, the State Government booked an expenditure of ₹ 2071.82 crore under Minor Head 800 under 45 Revenue and Capital Major Heads of Accounts, constituting 15.66 per cent of the total Revenue and Capital Expenditure of ₹ 13,232.66 crore. 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 ADCs for two to five 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 of theft, misappropriation and loss involving Government money amounting to ₹ 1.15 crore.

### **Recommendations**

- *An accountability framework for submission of UCs in a timely manner may be put in place. Further disbursement of grants to defaulting Departments may only be allowed after receipt of pending UCs.*
- *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 in*



*order to have a realistic and timely assessment of their financial position. They should review further financial assistance to ADCs who are in arrears of their Annual Accounts.*

**(Chapter IV)**

## **2.5 Functioning of State Public Sector Enterprises**

As on 31 March 2021, 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 2021, there was a difference of ₹ 559.46 crore in the investment figures of the State Government (Equity: ₹ 163.39 crore; Long-term Loans: ₹ 396.07 crore) as per State Finance Accounts *vis-à-vis* records of SPSEs.

During 2020-21 the State Government has provided budgetary support of ₹ 342.43 crore to SPSEs in the form of Equity (₹ 31.26 crore), Loans (₹ 107.17 crore) and Grants/subsidy (₹ 204.00 crore). The major recipients of budgetary assistance during 2019-20 were four power sector companies, which received budgetary allocation of ₹ 233.71 crore (68.25 *per cent*) in the form of Equity (₹ 13.76 crore), Loans (₹ 107.17 crore) and Grants/subsidies (₹ 112.78 crore).

During 2020-21, out of 17 working SPSEs, 4 SPSEs earned profits (₹ 2.03 crore) as per their latest finalised accounts as on 30 September 2021. Further, the accumulated losses of eight working SPSEs (₹ 2783.61 crore) had completely eroded their paid-up capital (₹ 1154.31 crore)

The overall losses of power sector SPSEs in last five years have increased by more than two folds from ₹ 234.92 crore (2016-17) to ₹ 518.58 crore (2020-21). Further, the net worth of one SPSE (Meghalaya Power Distribution Company Limited) was negative due to complete erosion of its equity capital by the accumulated losses.

As on 30 September 2021, all 17 working SPSEs had a total arrear of 30 Accounts ranging from one to five years. The highest number of accounts pending finalisation pertained to Meghalaya Transport Corporation (five Accounts) and Forest Development Corporation of Meghalaya Limited (four Accounts).

### **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 8 out of 17 working SPSEs had eroded public wealth, which is a cause of concern and the State Government needs to review improve their working or fully review the working of these SPSEs for continuing their operations.*
- *The functioning of the Power Sector Companies needs to be reviewed so as to increase their revenue and decrease their operational costs.*



- *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)**

