

## OVERVIEW

This Report includes two chapters containing observations of Audit on the Finance Accounts and Appropriation Accounts of the State for the year 2006-07 and five other chapters with nine performance reviews (including one internal control review) and 61 paragraphs (including four general paragraphs), based on the audit of certain selected programmes and activities and the financial transactions of the Government.

Copies of the audit paragraphs and performance reviews are sent to the concerned Secretary to the State Government by the Principal Accountant General (Audit) with a request to furnish replies within six weeks. In respect of four reviews and 18 audit paragraphs (excluding general paragraphs) in this Report, no response was received from the concerned Secretary to the State Government.

A synopsis of the important findings contained in this Report is presented in this overview.

## FINANCES OF THE STATE GOVERNMENT

The fiscal position of the State viewed in terms of key fiscal parameters showed a significant improvement as the State has been able to maintain revenue and primary surpluses and reduce fiscal deficit during 2005-07. A steep increase in Central transfers to State, comprising tax transfers and grants-in-aid, has provided a cushion in revenue account which helped the State Government to increase revenue surplus and also to contain fiscal deficit well within 3 *per cent* of GSDP ahead of two years than stipulated in the MFRBM Act, 2006. Apart from the fact that around 77 *per cent* of States revenue receipts are being contributed by the central transfers comprising of State's share in Union pool of taxes and duties and grants-in-aid from Government of India (GOI) during 2006-07, the expenditure pattern of the State reveals that the revenue expenditure as a percentage to total expenditure constituted around 85 *per cent* during the period (2001-07) leaving inadequate resources for expansion of services and creation of assets. Within revenue expenditure, NPPE at Rs.1,341 crore in 2006-07 constituted around 70 *per cent* and remained significantly higher than the normatively assessed level of Rs.1,203 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPPE which was around 2/3<sup>rd</sup> during 2006-07. The continued prevalence of fiscal deficit indicates the increasing reliance of the State on borrowed funds resulting in increasing fiscal liabilities of the State over this period which stood at 39 *per cent* of the GSDP in 2006-07 and appears to be quite high especially if compared with the limit of 28 *per cent* prescribed in the MFRBM Act, 2006. The increasing fiscal liabilities accompanied by negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might result in

erosion of fiscal gains attained so far in medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise additional resources both through the tax and non-tax sources in ensuing years.

**(Paragraphs 1.1 to 1.11)**

## **ALLOCATIVE PRIORITIES AND APPROPRIATION**

During 2006-07, expenditure of Rs.2,331.93 crore (gross) was incurred against the total Grant and Appropriation of Rs.2,835 crore resulting in a saving of Rs.503.07 crore (17.74 *per cent*). The overall saving was the result of savings of Rs.568.48 crore in 54 Grants and eight cases of Appropriations offset by excess of Rs.65.41 crore in six Grants and two cases of Appropriations. The above excess of Rs.65.41 crore requires regularisation by the Legislature under Article 205 of the Constitution.

**(Paragraphs 2.1, 2.3 & 2.4)**

## **PERFORMANCE REVIEWS**

### **(i) Horticulture Development Scheme**

Horticulture Development Schemes were taken up in Meghalaya to ensure integrated development of horticulture and allied activities. The impact of implementation of the schemes was not evaluated to ascertain the progress in the development of horticulture and allied activities taken up under various State and Central schemes. The Director of Horticulture and the District Horticulture Officers of East Khasi Hills, West Garo Hills and East Garo Hills Districts failed to utilise 8 to 94 *per cent* of funds available during 2002-07 under the Centrally Sponsored Technology Mission Scheme indicating ineffective implementation of the scheme. The Department sustained loss of Rs.2.87 crore on running and maintenance of fruit preservation/processing centres and Orchard cum Horticulture Nurseries under State Plan Schemes during 2002-07. The Department incurred extra expenditure of Rs.1.50 crore under the Technology Mission Schemes due to incurring of expenditure in excess of prescribed norms. Failure in setting up of mushroom units, bio-control laboratory, *etc.* under the Technology Mission Scheme resulted in locking up of Central funds of Rs.2.03 crore. The objectives of the scheme, thus, remained largely unachieved.

**(Paragraph 3.1)**

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**(ii) *Nutritional Support to Primary Education***

The scheme, commonly known as Mid-Day Meal Scheme, was launched (August 1995) by the GOI with the intention to boost the universalisation of primary education by increasing enrolment, retention and attendance in schools and simultaneously impacting on the nutrition of students in primary classes. Review of implementation of the scheme revealed non-conducting of survey to assess the number of children enrolled in primary classes and absence of records on verification of quality of foodgrains. The Director of Elementary and Mass Education failed to disburse 50 to 100 *per cent* of funds available during 2002-07 indicating ineffective implementation of the scheme. The primary school children of the State were deprived of the benefit of cooked meal due to non-release of Central funds of Rs.6.59 crore during 2006-07. Lifting of foodgrains allocated by the GOI for the enrolled children, reported by the State Government without any basis, resulted in an additional subsidy burden of Rs.3.86 crore on the GOI. The Deputy Commissioners of East Khasi Hills and West Garo Hills extended undue financial benefit of Rs.56 lakh to the whole-salers due to payment for transportation cost of foodgrains which were lifted by the school authorities. A large number of primary schools in the State were not provided with infrastructural facilities like kitchen-cum-store, drinking water, *etc.* required for the supply of cooked mid-day meals. The overall impact of the scheme was far from satisfactory, since the nodal Department failed to provide cooked meal to the school children during most of the school days during 2002-07.

**(Paragraph 3.2)**

**(iii) *Modernisation of Police Force***

The scheme of Modernisation of Police Force was launched (1969-70) by the GOI for modernising the police forces in the country to enable them to effectively face the emerging challenges to internal security. The Central and State Governments had not released Rs.23.94 crore to the implementing Department thereby adversely affecting the implementation of the scheme. The Department failed to provide basic infrastructure to its police force, like buildings for Police Stations/Out Posts, rest rooms and toilets for the women police. Intention of increasing the mobility of police force was defeated because of failure of the Department in providing required number of vehicles to its force. There was short supply of weapons to the police force despite expenditure of Rs.1.69 crore during 2002-07. Consequently, the objectives of the scheme could not be realised even after 37 years of its implementation.

**(Paragraph 3.3)**

**(iv) *Drinking Water Supply Schemes***

In Meghalaya, various water supply schemes are implemented by the Public Health Engineering (PHE) Department under different programmes for

providing adequate safe drinking water facilities to the people of the State. The objectives of the schemes remained largely unachieved because of significant shortfall (53 and 45 *per cent*) in providing safe drinking water to the identified habitations during 2002-07. The Department failed to utilise 18 to 46 *per cent* of funds available during 2002-05 and 2006-07 under the Accelerated Rural Water Supply Programme thereby depriving the people of the benefit of safe drinking water. The objectives of Prime Minister's Programme was also defeated because of failure in utilisation of 27 to 100 *per cent* of available funds during 2003-07. Expenditure of Rs.12.56 crore till March 2007 incurred on 34 water supply schemes had become unproductive, as these schemes remained incomplete for period ranging from one to two years. There was time overrun of one to five years in the completion of 37 water supply schemes, resulting in cost overrun of Rs.87.01 lakh. The Department incurred wasteful expenditure of Rs.67.38 lakh due to taking up of the work of the Lyngkyrdem Combined Water Supply Scheme without ensuring the source of water. There was idle investment of Rs.1.70 crore due to procurement of material without arranging the source of water/site for execution of work. Unauthorised deviation from the sanctioned estimate resulted in execution of sub-standard work valued at Rs.2.23 crore on implementation of the Greater Mawryngkneng Rural Water Supply Scheme.

**(Paragraph 3.4)**

## AUDIT OF TRANSACTIONS

**(i) Extra Expenditure**

Failure of the Public Works Department (PWD) to adopt the correct rate for an item of work in the Schedule of Rates resulted in extra expenditure of Rs.37.30 lakh, besides committed liability of Rs.3.67 lakh.

**(Paragraph 4.4)**

Enhancement of rate by the PWD due to delay in handing over the clear site of the work and drawings, *etc.* for construction of Women and Children Hospital, Tura resulted in an extra expenditure of Rs.58.24 lakh.

**(Paragraph 4.6)**

The PWD incurred extra expenditure of Rs.30.66 lakh on execution of two items of the work 'Improvement and strengthening of Shillong-Nongstoin Road in different sections including reconstruction of a major bridge' due to payment for short utilisation of bitumen.

**(Paragraph 4.7)**

**(ii) Unfruitful Expenditure**

Failure of the Animal Husbandry and Veterinary Department to strengthen/establish three pig breeding farms resulted in an unfruitful expenditure of Rs.32.48 lakh.

**(Paragraph 4.9)**

**(iii) Unproductive Expenditure/Idle Investment**

Purchase of land by the Forest and Environment Department for setting up of State Zoo and Botanical Garden without ensuring its proper utilisation led to idle investment of Rs.4.82 crore.

**(Paragraph 4.12)**

Purchase of equipment/furniture by the Health and Family Welfare (H&FW) Department before construction of the building for the additional 100 bedded hospital, Tura as well as non-functioning of the hospital despite completion of construction work resulted in an idle expenditure of Rs.6.38 crore.

**(Paragraph 4.13)**

Inordinate delay on the part of the H&FW Department in construction of sheds required for installation of the incinerators/scrubbers resulted in unproductive expenditure of Rs.86.12 lakh.

**(Paragraph 4.14)**

Purchase of equipment/goods by the H&FW Department for the Children's and Women's Hospital, Tura even before construction of the building for the hospital and failure to complete the electrical works of the hospital building resulted in idle expenditure of Rs.5.09 crore, besides irregular payment of Rs.8.19 lakh for the material which had not been received.

**(Paragraph 4.15)**

Inordinate delay in handing over the drawings, *etc.* required for implementation of the Baghmara Water Supply Scheme resulted in unproductive expenditure of Rs.3.38 crore.

**(Paragraph 4.16)**

## **INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT**

### ***Internal Control System and Internal Audit in Housing Department***

Internal controls were inadequate and ineffective in the Housing Department. Arrangements for internal audit were also inadequate. Despite availability of adequate funds for capital works, the Department provided housing assistance to less than the number of targeted families which is indicative of poor budgetary, financial, operational and monitoring controls. The review of the working of the Department also revealed weaknesses in material management. Material were procured without ensuring its quality and no physical verification of the stores was conducted. Internal audit of the Department was never conducted during the review period.

**(Paragraph 5.1)**

## **REVENUE RECEIPTS**

### **REVIEWS**

#### **(i) *Receipts under State Lottery***

Arbitrary action of the Government to withdraw the safeguard/deterrent clause and failure to incorporate a penal clause in the amended agreement for online draws with the distributor led to undue financial aid and non-realisation of revenue of Rs.900.07 crore.

**(Paragraph 6.2.8)**

Failure of the Government to obtain legal opinion prior to execution of the paper lottery agreement and being clear about the status of both online as well as paper schemes resulted in loss of revenue of Rs.5,170.23 crore.

**(Paragraph 6.2.9)**

Irregular reduction of rate of weekly draws led to loss of revenue of Rs.7.83 crore.

**(Paragraph 6.2.13)**

#### **(ii) *Receipts under Motor Vehicles Taxes***

Lack of a system of monitoring led to vehicles being delivered to the purchasers without valid registration certificate. This also resulted in non-levy of a minimum fine of Rs.5.78 lakh.

**(Paragraph 6.3.8)**

Failure of the DTOs to review the combined register resulted in follow up action to recover the dues not being initiated. This resulted in loss/non-levy of revenue of Rs.50.22 lakh.

**(Paragraph 6.3.9)**

Failure of the Enforcement Wing to detect 7,19,963 commercial trucks carrying load beyond maximum permissible limit led to non-levy of fine of Rs.707.40 crore.

**(Paragraph 6.3.12.1)**

Out of Rs.50.66 lakh collected as fine, Rs.39.66 lakh was deposited and the balance revenue of Rs.11 lakh was embezzled.

**(Paragraph 6.3.13.1)**

A weighbridge was not settled with the highest bidder leading to revenue loss of Rs.2.70 crore.

**(Paragraph 6.3.15.1)**

Failure of the Enforcement Wing to detect plying of vehicles without pollution under control certificates led to non-levy and realisation of fees and fines of Rs.2.32 crore.

**(Paragraphs 6.3.16)**

**(iii) Vehicle Registration System**

Lack of a time frame for implementation of the project resulted in computerisation taking over five years for completion.

**(Paragraphs 6.4.7.1)**

There were 346 sets of duplicate engine numbers involving 784 vehicles and four sets of duplicate chassis numbers involving eight vehicles. Cross verification revealed 94 and 127 vehicles registered with the DTO, Shillong shared common chassis/engine number with the vehicles registered with DTO, Aizawl.

**(Paragraphs 6.4.8.1 & 6.4.8.2)**

Out of 56,284 records, 21,909 records had no vehicle insurance detail rendering more than 39 *per cent* of the data redundant. There were a number of cases of registration of two or more vehicles with common insurance cover note number.

**(Paragraph 6.4.8.3)**

Data capture was partial in many cases resulting in incomplete database.

**(Paragraph 6.4.8.6)**

The department failed to detect registration of 9,158 vehicles beyond the mandatory period of seven days resulting in non-levy of fine.

**(Paragraph 6.4.8.8)**

Registering fee of Rs.15.19 lakh and minimum fine of Rs.1.82 crore from 9,087 non-transport vehicles whose registrations have expired was realisable.

**(Paragraph 6.4.8.10)**

The department failed to detect 9,829 transport vehicles plying without fitness certificate resulting in non-realisation of fees of Rs.19.66 lakh and minimum fine of Rs.1.97 crore.

**(Paragraph 6.4.8.11)**

There was no documentation of modifications made to the application software, user requirement specification, system design, *etc.* Business continuity planning and training needs were not adequately addressed.

**(Paragraph 6.4.9)**

## PARAGRAPHS

Failure of the Environment and Forest Department to deduct collection charges from the royalty paid to district councils resulted in loss of revenue of Rs.2.71 crore.

**(Paragraph 6.5)**

Incorrect application of rate of royalty on sand, stone *etc.* led to short realisation of royalty of Rs.1.40 crore.

**(Paragraph 6.6)**

Loss of revenue of Rs.80 lakh as a *mahal* remained inoperative due to delay in receipt of settlement orders from the Government.

**(Paragraph 6.7)**

Non-realisation of excise duty of Rs.3.36 crore by the Excise Department on 67,111 cases of liquor imported for use in the manufacture of brandy, whisky *etc.* by two bottling plants.

**(Paragraph 6.12)**



Establishment charges of Rs.31.55 lakh in respect of excise officials posted in different bonded warehouses were not realised.

**(Paragraph 6.13)**

Penalty of Rs.19.68 lakh was short levied on coal despatched through mines and minerals check gates without payment of advance royalty.

**(Paragraph 6.19)**

Stamp duty was short levied by Rs.73.55 lakh.

**(Paragraph 6.20)**

Thirty three registered dealers concealed turnover of Rs.62.44 crore leading to evasion of tax of Rs.5.07 lakh including interest on which maximum penalty of Rs.7.55 crore was also realisable.

**(Paragraph 6.22)**

Twenty one dealers fraudulently utilised C/F forms to avail concessional rate/exemption of tax and evaded tax of Rs.3.71 crore on which penalty of Rs.5.57 crore was additionally leviable.

**(Paragraph 6.23)**

Failure of the assessing officer to levy tax on closing stock of two companies at the time of their closure led to loss of revenue of Rs.61.36 lakh.

**(Paragraph 6.24)**

Failure to register 618 taxable vehicles under the MPGT Act led to evasion of tax Rs.61.31 lakh.

**(Paragraph 6.25)**

Failure of the officer incharge of the taxation check gate to detect excess load of coal led to loss of revenue of Rs.47.93 lakh.

**(Paragraph 6.26)**

Revenue of Rs.18.64 lakh was lost due to the loss in transit in the case records of a dealer.

**(Paragraph 6.29)**

Mistake in computation resulted in underassessment of tax of Rs.16.84 lakh.

**(Paragraph 6.30)**

## **GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES**

### **COMMERCIAL TRANSACTIONS**

As on 31 March 2007, the State Government had 13 PSUs (10 Government companies and three Statutory Corporations). Total investment in these PSUs increased from Rs.896.80 crore as on 31 March 2006 to Rs.1,290.34 crore as on 31 March 2007. The accounts of 10 Government companies and two corporations were in arrears for period ranging from one to 15 years. Seven companies had accumulated losses aggregating Rs.64.63 crore which exceeded their paid-up capital of Rs.11.73 crore.

**(Paragraphs 7.1.1 to 7.1.25)**

### **PERFORMANCE REVIEW**

#### ***Implementation of Accelerated Power Development and Reforms Programme by Meghalaya State Electricity Board***

In Meghalaya, the Accelerated Power Development and Reforms Programme (APDRP) was being implemented by Meghalaya State Electricity Board (Board) since July 2004 with the main objective to supply electricity in all the areas, reduce aggregate technical and commercial losses, outages and interruptions, make power sector commercially viable and enhance consumer satisfaction by upgradation of sub transmission and distribution system.

Non-release of matching contribution of Rs.13.23 crore by the State Government resulted in non-receipt of grant amounting to Rs.46.48 crore from the union Ministry of Power.

**(Paragraph 7.2.8)**

Delayed release of funds by the State Government to the Board has attracted penal interest liability of Rs.3.58 crore.

**(Paragraph 7.2.8)**

The Board incurred extra expenditure of Rs.3.39 crore on the procurement of components not provided in the Detailed Project Reports.

**(Paragraphs 7.2.13 and 7.2.14)**

The Board incurred additional expenditure of Rs.6.46 crore on the procurement of major components at the rates higher than the issue rates of these components from its own stores.

**(Paragraph 7.2.18)**

## **AUDIT OF TRANSACTIONS**

Inadequate follow up action and imprudent business practice adopted by the Company resulted in doubtful recovery of loan of Rs.4.42 crore.

**(Paragraph 7.3)**

Improper assessment of demand of electricity by the Company resulted in incurring of extra expenditure of Rs.47.22 lakh on electricity charges.

**(Paragraph 7.5)**

Injudicious selection of a party for leasing of a coal depot resulted in loss of revenue of Rs.96 lakh.

**(Paragraph 7.6)**