Executive Summary

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The Report

Based on the audited accounts of the Government of Meghalaya for the year ended March 2017, this Report provides an analytical review of the finances of the State Government. The Report has three Chapters:

Chapter 1 is based on the Finance Accounts and makes an assessment of the Government's fiscal position as on 31 March 2017. It broadly presents and analyses the State Government's resources and their applications.

Chapter 2 is based on audit of Appropriation Accounts and reviews the allocative priorities of the State Government and the manner in which the allocated resources were managed by various Departments.

Chapter 3 gives an overview and status of the State Government's compliance with various financial rules, procedures and directives during 2016-17.

2 Audit Findings

2.1 Finances of the State Government

The fiscal position of the State are viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit. There was a revenue surplus of ₹ 602.41 crore during 2016-17. The revenue surplus was utilised to partially finance the capital expenditure of ₹ 1289.80 crore during the year. The fiscal deficit as well as primary deficit of the State had increased significantly during 2016-17 compared to previous year.

The prevalence of fiscal deficit during 2012-17 indicated continued reliance of the State on borrowed funds, resulting in increasing the fiscal liabilities of the State over the period 2012-17. Fiscal liabilities increased by 25.56 *per cent* during 2016-17 compared to previous year. The fiscal liabilities during 2016-17 stood at 30.38 *per cent* of the GSDP during the current year against 27.77 *per cent* during 2015-16 and exceeded the limit of total outstanding Debt-GSDP ratio projected in Medium Term Fiscal Plan (24.57 *per cent*) for the year. The Debt-Repayment as a percentage of Tax Revenue ranged between 173.75 *per cent* and 242.66 *per cent* during 2012-17.

The Central tax transfers comprising State's share of Union taxes and duties from the Government of India continued to be key in the increase in revenue receipts of the State. The central tax transfers increased by 228 *per cent* during 2012-17 and constituted 43.75 *per cent* of the revenue receipts of the State during 2016-17. The State's own resources (tax and non-tax revenue) during 2012-17 increased by 45.57 *per cent* and constituted only 20.93 *per cent* of the revenue receipts (₹ 1871.25 crore) during 2016-17.

The State could not meet the targets set by the 14th FC as the tax revenue receipts fell short of normative assessment made by 14th FC by 29.78 *per cent* and the non-tax revenue was 4.03 *per cent* lower than the target of 14th FC.

The expenditure pattern of the State revealed that the revenue expenditure as a percentage of total expenditure hovered around 86 *per cent* during the period (2012-17) leaving inadequate resources for expansion of services and creation of assets. The revenue expenditure of the State increased by 31.33 *per cent* from ₹ 6347.73 crore in 2015-16 to ₹ 8336.54 crore in 2016-17.

Capital outlay during 2016-17 (₹ 1289.80 crore) increased by ₹ 178.91 crore (16.11 *per cent*) over previous year and fell short by 5.20 *per cent* (₹ 70.73 crore) of the projection (₹ 1360.53 crore) made by the State Government in its budget estimates for the year. Share of Capital Outlay to total expenditure during 2014-17 decreased from 15.06 *per cent* (2014-15) to 13.36 *per cent* (2016-17) despite three fold increase in the Central Tax Transfer during the same period from ₹ 1381.69 crore (2014-15) to ₹ 3911.05 crore (2016-17).

The average return on Meghalaya Government's investments in Statutory Corporations, Government Companies and Co-operative Societies was less than one *per cent* during 2012-17, whereas the average interest payment on Government borrowings was in the range of 6.22 to 6.70 *per cent.*

Therefore, it is recommended that the State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.

(Chapter 1)

2.2 Financial Management and Budgetary Control

Sound financial management requires advance planning and accurate estimation of revenues and expenditure. There were instances of excess expenditure or substantial savings with reference to provisions made during the year, exhibiting weakness in expenditure monitoring and control.

The overall saving of ₹ 2073.44 crore was the result of saving of ₹ 2241.50 crore in 50 Grants under Revenue Section, 23 Grants and two Appropriations under Capital Section. This was offset by excess of ₹ 168.06 crore in four Grants under Revenue Section and two Grants under Capital Section.

There was excess expenditure over the budget allocation amounting to ₹ 1974.87 crore pertaining to the years from 1971-72 to 2015-16 which was yet to be regularised as of December 2017. The cases of excess expenditure over grants are a serious matter and are in violation of the will of the Legislature. It is important that responsibility is fixed in this regard to discourage this practice.

Supplementary provision aggregating ₹ 357.13 crore obtained in 29 cases proved to be unnecessary as the actual expenditure (₹ 2874.54 crore) was less than the original provision (₹ 3806.83 crore) by ₹ 932.29 crore, thus depriving the provision of funds to the needy departments.

Out of the total savings of ₹ 2073.44 crore, ₹ 1604.97 crore (77.41 *per cent*) was surrendered during the year and the balance savings of ₹ 468.47 crore (22.59 *per cent*) remained un-surrendered.

There were also instances of inadequate provision of funds and unnecessary/excessive re-appropriations. In many cases, the anticipated savings were not surrendered. All this shows that budgetary procedure and expenditure control of the Government was weak.

(Chapter 2)

2.3 Financial Reporting

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

There were delays in furnishing utilisation certificates for grants given by Government departments. Delays also figured in submission of annual accounts by some autonomous bodies. There were also 74 instances of loss and misappropriation.

(Chapter 3)

Recommendations

It is recommended that:

Greater priority to capital expenditure: The State needs to give more priority to capital expenditure and ensure that it increases over the years.

Government investments: State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.

Financial management and budgetary control: The budget should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided. Anticipated savings should be surrendered early so that there is sufficient scope for utilising these for other development purposes.

Regularisation of excess expenditure over appropriation: The cases of excess expenditure over grants are a serious matter and should be avoided.

Financial reporting: There is a need to ensure that utilisation certificates are submitted by recipient of grants within the prescribed time. Departmental enquiries in all misappropriation cases should be expedited and internal controls strengthened to prevent such cases.