

CHAPTER-IV

QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

CHAPTER IV: QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

4.1 Funds kept outside the Consolidated Fund of the State

Article 266 (1) of the Constitution of India, subject to the provisions of Article 267, provides that all revenues received by the Government of a State, all loans raised by that Government by the issue of Treasury Bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled the “Consolidated Fund” of the State. Article 266 (2) provides that all other public moneys received by or on behalf of the Government of a State shall be credited to the Public Account of the State, as the case may be. Thus, funds meant to be credited to the Consolidated Fund or Public Accounts, being credited to bank accounts is violative of the Constitutional intent.

Audit observations on such funds are given below:

4.1.1 Labour Cess

In line with Section 18 of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996, the Government of Meghalaya constituted the Meghalaya Building and Other Construction Workers’ Welfare Board (MBOCWFB) vide Government of Meghalaya, Labour Department’s Notification No.LBG.125/96/Pt/Vol.II/121 dated 2nd September 2009, to exercise the powers conferred on and perform the functions assigned to it under the said Act.

Further, Section 3(1) of the Building and Other Construction Workers’ Welfare Cess Act, 1996, provides for levy and collection of Labour Welfare Cess at such rate not exceeding two *per cent*, but not less than one *per cent* of the cost of construction incurred by an employer, as the government may so define from time to time. Rule 5(1) of the Building and Other Construction Workers’ Welfare Cess Rules, 1998 states that the proceeds of the Cess so collected shall be transferred by such Government office/PSEs/local authority/cess collector, to the Board along with the form of challan prescribed (and in the head of account of the Board), under the accounting procedures of the State, by whatever name they are known.

Audit findings revealed that labour cess collected by the Building and Other Construction Workers’ Welfare Board was being maintained by the Board and deposited in a nationalised bank and investments made in Fixed Deposits in State Bank of India and Vijaya Bank. As such, the collected Cess to the tune ₹ 95.22 crore

(excluding expenditure of the Board) during 2016-17 to 2020-21 has not been routed through the Consolidated Fund of the State as required under Article 266(1) of the Constitution of India. The fund position of the Board for the last five years, i.e. from 2016-17 to 2020-21 is shown in the table below:

Table 4.1: Labour Cess collected by the Meghalaya Building and Other Construction Workers' Welfare Board during 2016-21

| (₹ in crore) | | | | |
|--------------|-----------------|--------------------------------|----------------------|-----------------|
| Year | Opening Balance | Cess collected during the year | Expenditure incurred | Closing Balance |
| 2016-17 | 16.76 | 24.83 | 0.27 | 41.32 |
| 2017-18 | 41.32 | 21.34 | 0.98 | 61.68 |
| 2018-19 | 61.68 | 17.66 | 1.65 | 77.69 |
| 2019-20 | 77.69 | 23.12 | 3.88 | 96.93 |
| 2020-21 | 96.93 | 20.81 | 22.52 | 95.22 |

4.1.2 Meghalaya Environment Protection and Restoration Fund (MEPRF)

Meghalaya Environment Protection and Restoration Fund (MEPRF) came into being as per Orders of the Hon'ble National Green Tribunal (NGT) in March 2015 wherein it had directed the State Government to collect ten *per cent* of the market value of Coal per metric tonne and the amount so collected to be deposited in the account titled as '**Meghalaya Environment Protection and Restoration Fund (MEPRF)**' to be maintained by the State under the direct control of the Chief Secretary of the State of Meghalaya.

Subsequently, in compliance with the orders of the Hon'ble National Green Tribunal, the Mining and Geology Department, Government of Meghalaya, had issued the **Revised Guidelines of Meghalaya Environment Protection and Restoration Fund in August 2020**. The Revised Guidelines which was also approved with amendments by the NGT Committee, Meghalaya, categorically stated in clause 1 that the State Government shall notify institutional mechanisms consisting of District Level Executive Committees, Technical Committee, Steering Committee and Monitoring Group to ensure utilisation of MEPRF in an efficient, effective and transparent manner, for the purpose of restoration of environment in areas affected by coal mining in the State. It also seeks necessary remedial and preventive measures with regard to environment and matter related thereto, including rehabilitation of persons affected by coal mining.

As per audit findings, it has come to light that the administration of the Fund as a whole is being discharged by the Directorate of Mineral Resources (DMR), Government of Meghalaya. For this, approval had been conveyed by the Government, which has authorised the DMR to open a separate Current Bank account for the Meghalaya Environment Protection and Restoration Fund (MEPRF), under the direct control of the Chief Secretary, Government of Meghalaya.

Since the inception of the MEPRF (25 March 2015), the total accumulation under the Meghalaya Environment Protection Fund as on 31 March 2021 is ₹ 445.16 crore as shown in the table below:

Table 4.2: Funds collected under MEPRF since inception

(₹ in crore)

| Sl. No. | Period of collection | Amount collected under MEPRF |
|--------------|---|------------------------------|
| 1. | 25 March 2015 to 30 April 2015 | 95.13 |
| 2. | 31 July 2015 to 30 October 2015 | 45.83 |
| 3. | 23 December 2015 to 15 February 2016 | 63.87 |
| 4. | 17 March 2016 to 30 March 2016 | 6.45 |
| 5. | 31 March 2016 to 15 April 2016 | 10.64 |
| 6. | 01 October 2016 to 31 May 2017 | 136.49 |
| 7. | 21 November 2017 to 31 May 2018 | 74.66 |
| 8. | 04 December 2018 to 15 January 2019 | 10.23 |
| 9. | Seized coal under Section 21 of MMDR Act, 1957 during August 2019 to September 2019 | 1.86 |
| Total | | 445.16 |

Source: Directorate of Mineral Resources, Government of Meghalaya.

As is evident from above, collections to the tune of ₹ 445.16 crore under MEPRF as on 31 March 2021 has been lying outside the Consolidated Fund in contravention of the Article 266(2) of the Constitution.

Non-routing of the above receipts through the Consolidated Fund results in fissures where such Revenue Receipts of the Government escapes the notice of the Legislature while not being captured in the desired manner and also, will not provide a true picture of the actual revenue *vis-a-vis* the expenditure of the State to determine the fiscal parameters.

4.2 Funds transferred directly to State implementing agencies

As per GoI decision, all assistance to Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under various schemes would be released directly to the State Government and not to the State Implementing Agencies²³ and hence, these funds would be routed through the State budget from the year 2015-16 onwards. However, as per Appendix VI of Volume II of Finance Accounts, it was seen that GoI released ₹ 1345.76 crore under 50 schemes (*Appendix 4.1*) directly to State Implementing Agencies (including Govt. Departments) during 2020-21, which were not routed through the budget of the State Government. Cases where the transfer of funds has exceeded ₹ 10 crores during 2019-20 and 2020-21 are shown in the table below:

²³ State Implementing Agency includes any organisation/institution including non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State.

Table 4.3: Funds in excess of ₹ 10 crore transferred by Government of India directly to State implementing agencies

| (₹ in crore) | | | | |
|--------------|---|--|---|---|
| Sl. No. | Name of the Schemes of Government of India | Name of the Implementing Agencies | Government of India releases during 2019-20 | Government of India releases during 2020-21 |
| 1. | MPs Local Area Development Scheme MPLADS | Deputy Commissioner | 12.50 | 7.50 |
| 2. | Integrated Development of Tourism Circuits around specific themes (Swadesh Darshan) | Meghalaya Tourism Development Corporation Ltd. | 25.49 | 34.09 |
| 3. | National Rural Employment Guarantee Scheme (MGNREGA)CS | State Rural Employment Society, Shillong | 604.89 | 977.22 |
| 4. | North East Road Sector Development Scheme | Public Works Department (Roads), Meghalaya | 33.98 | 0.66 |
| Total | | | 676.86 | 1019.47 |

Source: Finance Accounts.

As these funds were not routed through the State budget/State treasury system, the Annual Finance Accounts did not capture these funds flow and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them did not present the complete picture.

4.3 Funds lying unutilised in the current account of DDOs

The Drawing and Disbursing Officers (DDOs) are required to withdraw money from the Government Account/ Consolidated Fund for making payment on behalf of the Government. As on 31 March 2021, an amount of ₹ 276.71 crore were lying in the current accounts of 26 DDOs out of 45.

During the Exit Conference (December 2020) held between the Accountant General (A&E) and the State Government, the representatives of the State Government stated that the DDOs were allowed to open current account due to Banking Cash Transaction Tax (BCTT) imposed by Government of India. The AG (A&E) insisted upon to close all the current accounts as BCTT has been rolled back and to follow the prescribed procedure of Treasury Rules, Receipts and Payments Rules *etc.* for drawal of money from Government Accounts. The treasury officers should be instructed not to pass any bill for payment which has been placed before them for drawal of money with the intention to transfer of balance to current account. The details of current accounts being operated by the 26 DDOs are detailed in *Appendix 4.2*.

Funds to the tune of ₹ 276.71 crore were meant to incur expenditure on different heads *inter alia*, office expenses, committed liabilities, Central/State Scheme. Even though these amounts have already been accounted for as expenditure from the consolidated fund of the State, they are still lying idle parked outside the Government Accounts. Thus the expenditure shown in the Finance Accounts cannot be vouched as correct to that extent. Further, information from the remaining DDO's are still awaited (26.11.2021).

4.4 Delay in submission of Utilisation Certificates

Rule 515 (Appendix 14) of the Meghalaya Financial Rules, 1981, provides that unless otherwise ruled by the State Government, every grant made for a specified object is

subject to the implied conditions that the grant will be spent upon that object within a reasonable time (one year from the date of issue of the letter sanctioning the grant, if no time-limit has been fixed by the sanctioning authority). Grantee Institutions receiving Grants-in-Aid from Government are required to furnish Utilisation Certificates (UCs) to the Accountant General (Accounts & Entitlement) countersigned by the disbursing authority after thorough verification. The purpose for which the Grants-in-Aid were utilised can be confirmed only on receipt of UCs which would safeguard against diversion of funds for other purposes. To the extent of non-receipt of UCs, the expenditure shown in the accounts can neither be treated as final nor can it be confirmed that the amount has been utilised for the intended purposes.

Non submission of the UCs means that the authorities have not explained as to how funds were spent over the years. There is also no assurance that the intended objectives of providing these funds have been achieved. This assumes greater importance if such UCs are pending against Grants-in-Aid meant for Capital Expenditure. The year-wise details of submission of UCs for the years 2016-21 are given in the table below:

Table 4.4: Year-wise details on submission of UCs for the years 2016-21

(₹ in crore)

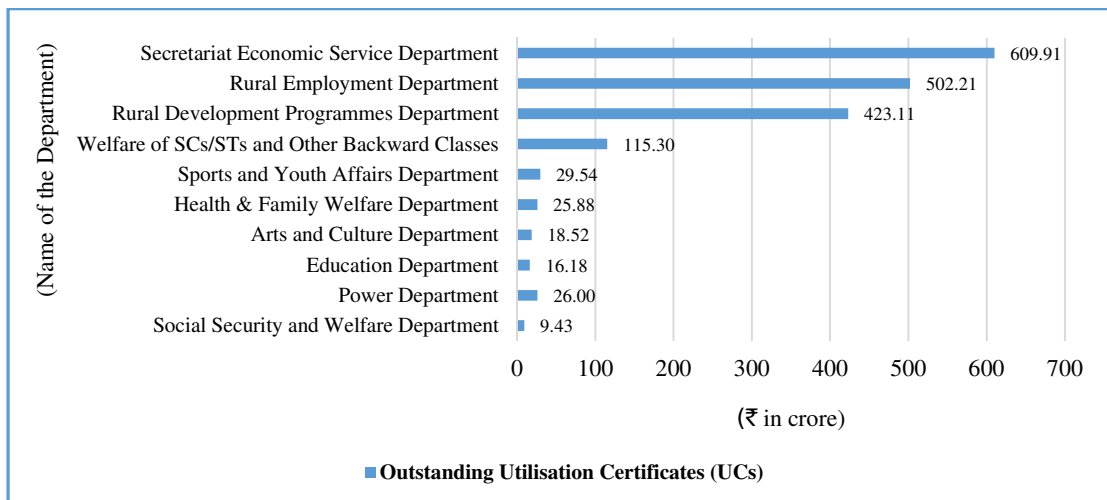
| Year | Opening Balance | | Addition During the Year | | Disposal | | Closing Balance | |
|---------|-----------------|---------|--------------------------|---------|----------|---------|-----------------|---------|
| | No. | Amount | No. | Amount | No. | Amount | No. | Amount |
| 2016-17 | 284 | 1097.13 | 447 | 1620.70 | 226 | 716.45 | 508 | 2001.39 |
| 2017-18 | 508 | 2001.39 | 382 | 1222.10 | 174 | 489.81 | 716 | 2733.59 |
| 2018-19 | 716 | 2773.59 | 527 | 1892.51 | 133 | 326.48 | 1110 | 4299.62 |
| 2019-20 | 1110 | 4299.62 | 180 | 1343.12 | 1075 | 3876.88 | 215 | 1765.86 |
| 2020-21 | 215 | 1765.86 | 705 | 2060.41 | 527 | 845.07 | 393* | 2981.21 |

Source: Office of the Accountant General (A&E), Meghalaya, Shillong.

*Out of 393, 178 UCs involving ₹ 1215.35 crore will be due in 2021-22.

It was seen that at the close of March 2021, 215 UCs amounting to ₹ 1765.86²⁴ crore remained outstanding in the books of the Accountant General (Accounts & Entitlement), Meghalaya.

Chart 4.1: Outstanding UCs in respect of major Departments



²⁴ ₹ 1765.86 = ₹ 2981.21 crore - ₹ 1215.35 crore.

Major defaulting departments which have not submitted UCs and their percentage out of total outstanding amount under Grants-in-Aid are Secretariat Economic Services (₹ 609.91 crore, 34.54 per cent), Rural Employment (₹ 502.21 crore, 28.44 per cent), Rural Development (₹ 423.11 crore, 23.96 per cent) and Welfare of S.Cs /S.Ts and other Backward classes (₹ 115.30, 6.53 per cent).

In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which these were disbursed. Further, it is likely that the funds received were not spent and were being held in the bank accounts of the respective departments. For example, **paragraph 3.2.1** of Chapter 3 it has been observed that the Public Works Department had a savings of ₹ 479.12 crore (25.35 per cent) during 2020-21, out of which ₹ 515.79 crore received was on account of grants-in-aid for CSS (Pradhan Mantri Gram Sadak Yojna). In the absence of UCs being submitted by the department it is impossible to gauge the implementation status of the scheme for which funds have been received.

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 and not only hold the concerned persons accountable for submission of UCs in a timely manner but review disbursement of further Grants to defaulting Departments.

4.5 Abstract Contingent bills

According to the Meghalaya Treasury Rules, 1985, the Controlling Officers are required to submit Detailed Countersigned Contingent (DCC) bills against the drawal of Abstract Contingent (AC) bills to the Accountant General (AG) within a month from the date of receipt of such bills in his office. As of March 2021, 61 DCC bills amounting of ₹ 63.03 crore were outstanding as shown in the table below. Major defaulter in this regard is the Election Department where AC bills for ₹ 62.84 crore (99.70 per cent) remained outstanding as of March 2021.

Table 4.5: Year wise progress in submission of DCC bills against the AC bills

| Year | Opening Balance | | Addition | | Clearance | | Closing Balance | |
|---------|-----------------|-----|----------|-----|-----------|-----|-----------------|-----|
| | Amount | No. | Amount | No. | Amount | No. | Amount | No. |
| 2017-18 | - | - | 35.60 | 10 | - | - | 35.60 | 10 |
| 2018-19 | 35.60 | 10 | 54.25 | 66 | 1.76 | 06 | 88.09 | 70 |
| 2019-20 | 88.09 | 70 | 28.04 | 233 | 22.18 | 227 | 93.95 | 76 |
| 2020-21 | 93.95 | 76 | 7.00 | 56 | 37.92 | 71 | 63.03 | 61 |

Expenditure against AC bills at the end of the year indicates poor public expenditure management and may point to the drawal being done primarily to exhaust the budget provision. Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DC bills. Further, to the extent of non-receipt of DCC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

4.6 Personal Deposit Accounts

Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment. As per Rule 392 of the Meghalaya Treasury Rules, 1985, if PD accounts are created by transferring funds from the Consolidated Fund for discharging liabilities of the Government arising out of the special enactment, such accounts should be closed at the end of the financial year and the unspent balance should be transferred to the Consolidated Fund. The amount credited to these accounts will be debited to the Consolidated Fund of the State and booked as expenditure of the year. Further, if a PD Account is not operated for a considerable period and there is reason to believe that the need for deposit account has ceased, the same should be closed in consultation with the officer in whose favour the deposit account had been opened.

During 2020-21, no amount has been transferred from Consolidated Fund of the State to Personal Deposit Accounts. However, an amount of ₹ 2.93 crore was credited to the PD Accounts through challans. This includes ₹ 0.05 crore transferred in March 2021. This is 1.71 *per cent* of the total credit to PD account during the year, of which, no amount was transferred on the last working day of March 2021. Details of PD accounts as on 31 March 2021 are given below:

Table 4.6: Details of PD accounts as on 31 March 2021:

(₹ in crore)

| Opening Balance as on April 2020 | | Addition during the year 2020-21 | | Closed/Withdrawal during the year 2020-21 | | Closing Balance as on 31 March 2021 | |
|----------------------------------|--------|----------------------------------|--------|---|--------|-------------------------------------|--------|
| Number of Administrators | Amount | Number of Administrators | Amount | Number of Administrators | Amount | Number of Administrators | Amount |
| 15 | 16.31 | 02 | 2.93 | 00 | 1.97 | 17 | 17.27 |

Further, scrutiny of the transactions for the year 2020-21 revealed that there are no inoperative PD accounts.

Non-transfer of unspent balances lying in PD Accounts to Consolidated Fund entails the risk of misuse of public fund, fraud and misappropriation.

4.7 Indiscriminate use of Minor Head 800

The omnibus Minor Head 800 relating to Other Receipts/Other Expenditure is to be operated only in case where the appropriate Minor Head has not been provided under a Major Head in the accounts. If such instances occur on a regular basis, it is the responsibility of the State Government to discuss with the Accountant General (A&E) and obtain approval to open appropriate Minor Heads. Indiscriminate booking of receipts and expenditure under Minor Head 800 affects transparency and nature of transactions and renders the accounts opaque.

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.

Instances of substantial proportion (50 per cent or more) of the Expenditure within a given Major Head, classified under the Minor Head 800 – ‘Other Expenditure’, are given below:

Table 4.7: Significant expenditure booked under Minor Head 800 – Other Expenditure during 2020-21

| Major Head | Description | Details of Expenditure | | (₹ in crore) |
|------------|--|------------------------|-----------------|--------------|
| | | Total Expenditure | 800 Expenditure | Per cent |
| 2225 | Welfare of Scheduled Caste, Scheduled Tribe, Other Backward Classes and Minorities | 70.60 | 70.60 | 100 |
| 2552 | North Eastern Areas | 8.36 | 4.63 | 55 |
| 2575 | Special Programmes for Rural Development | 41.85 | 35.36 | 84 |
| 2853 | Non Ferrous Mining and Metallurgical Industries | 79.44 | 59.74 | 75 |
| 3451 | Secretariat- Economic Services | 482.85 | 271.30 | 56 |
| 4235 | Capital Outlay on Social Security and Welfare | 6.62 | 3.68 | 56 |
| 4401 | Capital Outlay on Crop Husbandry | 1.32 | 1.32 | 100 |
| 4885 | Other Capital Outlay on Industries and Minerals | 15.13 | 15.13 | 100 |
| 5054 | Capital Outlay on Roads and Bridges | 935.77 | 935.77 | 100 |
| 5055 | Capital Outlay on Road Transport | 2.45 | 2.45 | 100 |
| | Total | 1644.39 | 1399.98 | |

With regard to receipts, ₹ 200.08 crore under 30 Major Heads of Account, constituting 1.87 per cent of the total Revenue Receipts (₹ 10,683.24 crore) was classified under 800-Other Receipts in the accounts.

Instances of substantial proportion (50 per cent or more) of the Receipts within a given Major Head, classified under the Minor Head 800 – ‘Other Receipts’, are given below:

Table 4.8: Significant Receipts booked under Minor Head 800 – Other Receipts during 2020-21

| Major Head | Description | Details of Receipts | | (₹ in crore) |
|------------|--------------------------------|---------------------|---------------------------|--------------|
| | | Total Receipts | Receipts booked under 800 | Per cent |
| 1456 | Civil Supplies | 86.00 | 86.00 | 100 |
| 0801 | Power | 1.24 | 1.24 | 100 |
| 0702 | Minor Irrigation | 0.31 | 0.31 | 100 |
| 0575 | Other Special Areas Programmes | 0.01 | 0.01 | 100 |
| 0405 | Fisheries | 0.11 | 0.11 | 100 |
| 0425 | Co-operation | 4.74 | 4.70 | 99 |
| 0075 | Miscellaneous General Services | 2.82 | 2.65 | 94 |
| 0070 | Other Administrative Services | 26.98 | 25.05 | 93 |
| | Total | 122.21 | 120.07 | |

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.

4.8 Outstanding balance under major Suspense and DDR heads

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final Head of Account for some reason or the other. These are finally cleared by minus debit or minus credit when the amount is taken to its final Head of Account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments. Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. Clearance of suspense and remittance items depends on the details furnished by the State Treasuries/ Works and Forest Divisions, *etc.* The position of gross figures under major suspense and remittance heads for the last three years is given in table below:

Table 4.9: Balances under Suspense and Remittance Heads

(₹ in crore)

| Major Head 8658-Suspense Accounts | | | | | | |
|--|-----------|----------|----------|----------|----------|----------|
| Name of Minor Head | 2018-19 | | 2019-20 | | 2020-21 | |
| | Dr | Cr | Dr | Cr | Dr | Cr |
| 101- Pay and Accounts Office -Suspense | 45.53 | 9.90 | 65.53 | 22.41 | 101.61 | 41.27 |
| Net | Dr 35.63 | | Dr 43.12 | | Dr 60.34 | |
| 102- Suspense Account (Civil) | 4.48 | 0.11 | 4.36 | 0.09 | 3.98 | 0.09 |
| Net | Dr 4.37 | | Dr 4.27 | | Dr 3.89 | |
| 109- Reserve Bank Suspense -Headquarters | 26.40 | 0.36 | 29.12 | 6.99 | 25.69 | 7.79 |
| Net | Dr 26.04 | | Dr 22.13 | | Dr 17.90 | |
| 110-Reserve Bank Suspense -Central Accounts Office | 35.58 | 37.18 | 133.23 | 133.84 | 135.42 | 128.46 |
| Net | Cr 1.60 | | Cr 0.61 | | Dr 6.96 | |
| 112-Tax Deducted at source(TDS) Suspense | 0.04 | 4.77 | 0.04 | 3.43 | 0.04 | 0.18 |
| Net | Cr 4.73 | | Cr 3.39 | | Cr 0.14 | |
| 123- A.I.S Officers' Group Insurance Scheme | 0.30 | 0.35 | 0.30 | 0.36 | 0.30 | 0.37 |
| Net | Cr 0.05 | | Cr 0.06 | | Cr 0.07 | |
| Major Head 8782- Cash Remittances and adjustments between Officers rendering accounts to the same Accounts Officer | | | | | | |
| Name of Minor Head | 2018-19 | | 2019-20 | | 2020-21 | |
| | Dr | Cr | Dr | Cr | Dr | Cr |
| 102- Public Works Remittances | 21491.09 | 21633.52 | 23321.16 | 23460.11 | 26180.05 | 26320.01 |
| 103-Forest Remittances | 3123.43 | 3083.33 | 3290.42 | 3246.95 | 3569.75 | 3509.33 |
| Net | Cr 102.33 | | Cr 95.48 | | Cr 79.54 | |

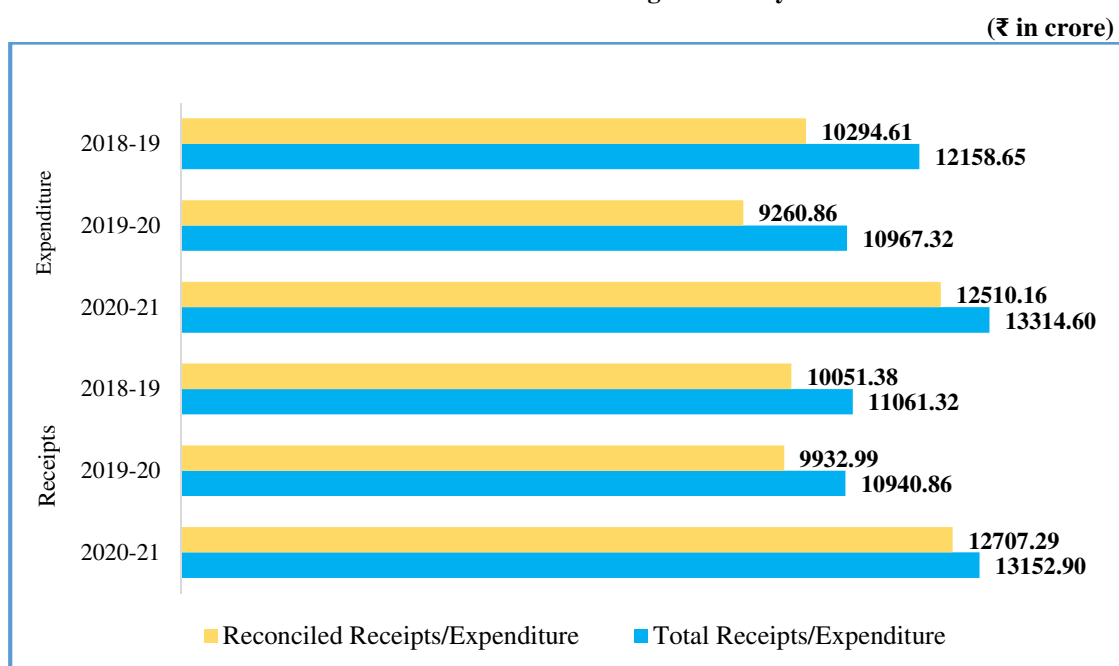
Source: Finance Accounts.

4.9 Non-reconciliation of Departmental figures

To enable Controlling Officers (COs) of the Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, the State Financial Rules stipulate that receipts and expenditure during the financial year recorded in their books be reconciled by them every month with that recorded in the books of the Accountant General (A&E).

The status of reconciliation of receipts and expenditure figures by the COs during the three years period 2018-21 is shown in the Chart and table below:

Chart 4.2: Status of reconciliation during the three years 2018-21



Source: Information furnished by AG (A&E), Meghalaya.

Table 4.10: Status of Reconciliation of Receipts and Expenditure figures

(₹ in crore)

| Year | Total No. of Controlling Officers | Fully Reconciled | Partially Reconciled | Not reconciled at all | Total Expenditure/ Receipts | Percentage of reconciliation |
|-------------|-----------------------------------|------------------|----------------------|-----------------------|-----------------------------|------------------------------|
| Expenditure | | | | | | |
| 2018-19 | 59 | 10294.61 | 33.14 | 1830.90 | 12158.65 | 85 |
| 2019-20 | 62 | 9260.86 | Nil | 1706.46 | 10967.32 | 84 |
| 2020-21 | 62 | 12510.16 | Nil | 804.44 | 13314.60 | 94 |
| Receipts | | | | | | |
| 2018-19 | 59 | 10051.38 | 0.33 | 1009.61 | 11061.32 | 91 |
| 2019-20 | 62 | 9932.99 | Nil | 1007.87 | 10940.86 | 91 |
| 2020-21 | 57 | 12707.29 | Nil | 445.61 | 13152.90 | 97 |

Source: Information furnished by AG (A&E), Meghalaya.

It could be seen from the above table that the percentage of reconciliation of expenditure has increased from 85 per cent during 2018-19 to 94 per cent during 2020-21. Similarly, the percentage of reconciliation of receipts has also increased from 91 during 2018-19 to 97 per cent during 2020-21.

Reconciliation and verification of figures is an important tool of financial management. Failure to exercise/adhere to the codal provisions and executive instructions in this regard not only results in misclassification and incorrect booking of receipts and expenditure in the accounts, but also defeats the very objective of budgetary process.

4.10 Reconciliation of Cash Balances

As on 31 March 2021, there was a difference of ₹ 45.71 crore (debit) between the figures reflected in the accounts (₹ 50.65 crore debit) and that intimated by the Reserve Bank of India (₹ 4.94 crore credit). The difference was due to misclassification by bank/treasury and non-receipt of details of adjustment made by RBI as shown below:

Table 4.11: Details of difference between the figures reflected in the accounts and RBI

| | | |
|--------------|---|----------------------|
| 1. | Misclassification by Bank/Treasury | Dr. ₹ 6.44 crore |
| 2. | Non-receipt of details of adjustments made by RBI | Dr. ₹ 39.27 crore |
| Total | | ₹ 45.71 crore |

4.11 Compliance with Accounting Standards

As per article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. Further, the Comptroller and Auditor General of India set up a Government Accounting Standards Advisory Board (GASAB) in 2002, for formulating standards for government accounting and financial reporting, to enhance accountability mechanisms. On the advice of the Comptroller and Auditor General of India, the President of India has so far notified three Indian Government Accounting Standards (IGAS). The details of these standards and the extent of compliance with these by the Government of Meghalaya in its financial statements for the year 2020-21 are given in table below:

Table 4.12: Compliance with Indian Government Accounting Standards

| Sl. No. | Accounting Standards | Essence of IGAS | Compliance by State Government | Impact of deficiency |
|---------|---|---|--------------------------------|---|
| 1. | IGAS-1: <i>Guarantees Given by the Government – Disclosure requirements</i> | This standard requires the government to disclose the maximum amount of guarantees given during the year in its financial statements along with additions, deletions, invoked, discharged and outstanding at the end of the year. | Complied | Both sector-wise details as well as class-wise details have been disclosed in the Finance Accounts (Statements 9 and 20) of the State of Meghalaya. |

| Sl. No. | Accounting Standards | Essence of IGAS | Compliance by State Government | Impact of deficiency |
|---------|---|---|--------------------------------|---|
| 2. | IGAS-2: <i>Accounting and Classification of Grants-in-Aid</i> | Grants-in-Aid are to be classified as Revenue Expenditure in the accounts of the grantor and as Revenue Receipts in the accounts of the grantee, irrespective of the end use. | Partly Complied | There was no instance of Grants-in-Aid booked under Capital Head. Detailed information in respect of Grants-in-Aid in kind has not been furnished by the Government of Meghalaya. |
| 3. | IGAS-3: <i>Loans and Advances made by Government</i> | This Standard relates to recognition, measurement, valuation and reporting in respect of loans and advances made by the Government in its Financial Statements to ensure complete, accurate and uniform accounting practices. | Partly Complied | The State government has not furnished figures in respect of certain loans and advances for which they maintain detailed accounts. None of the Loanees have confirmed the balances. |

4.12 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

Several autonomous bodies have been set up by the State Government in the field of Khadi and Village Industries, Labour, *etc.* The position of annual accounts of three of the autonomous bodies whose audit was entrusted to the Comptroller and Auditor General of India (CAG) under Section 19 & 20 of DPC Act is given in the table below:

Table 4.13: Position of outstanding annual accounts

| Name of Autonomous Body | Section of DPC Act under which audit is conducted | Due date for submission of Annual Accounts | Year of Annual Accounts received | Outstanding Annual Accounts |
|--|---|--|----------------------------------|-----------------------------|
| Meghalaya State Electricity Regulatory Commission (MSERC) | 19(2) | June every year | 2019-20 | 2020-21 |
| Meghalaya Khadi and Village Industries Board | 19(3) | -do- | 2018-19 | 2019-20 to 2020-21 |
| Meghalaya Building and Other Construction Workers' Welfare Board | 19(2) | - do - | 2015-16 | 2016-17 to 2020-21 |

In the absence of annual accounts and their audit, proper utilisation of the grants and loans disbursed to those Bodies/Authorities and their accounting cannot be vouched. The Administrative Departments may take steps to clear the arrears in accounts of these bodies.

4.13 Non-submission of details of grants / loans given to bodies and authorities

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), the Government/ Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various

institutions, the purpose of assistance granted and the total expenditure of the institutions.

Further, Regulation on Audit and Accounts (Amendments) 2020 provides that Governments and HODs, who sanction grants and/or loans to bodies or authorities shall furnish to Audit by the end of July every year a statement of such bodies and authorities to which grants and/or loans aggregating ₹ 10 lakh or more were paid during the preceding year indicating (a) the amount of assistance, (b) the purpose for which the assistance was sanctioned and (c) the total expenditure of the body or authority.

The annual accounts of 22 bodies/authorities due up to 2020-21 had not been received (November 2020) by the Accountant General (Audit). The details of these accounts are given in *Appendix 4.3* and their age-wise pendency is presented in table below:-

Table 4.14: Age-wise arrears of Annual Accounts due from Government Bodies

| Sl. No. | Delay in number of years | Total No. of Accounts |
|--------------|--------------------------|-----------------------|
| 1. | 0 to 1 year | - |
| 2. | Above 1 year to 3 years | 13 |
| 3. | Above 3 years to 5 years | 20 |
| 4. | Above 5 years to 7 years | 7 |
| 5. | Above 7 years to 9 years | 16 |
| 6. | Above 9 years | 97 |
| Total | | 153 |

In the absence of annual accounts and their audit, proper utilisation of the grants and loans disbursed to those bodies and their accounting cannot be vouched. The concerned Administrative Departments may advise these bodies to clear the arrears in accounts.

4.14 Autonomous District Councils (ADCs)

The United Khasi and Jaintia Hills District Council was set up in June 1952 under Article 244(2) read with the Sixth Schedule to the Constitution of India. The Council was bifurcated in 1967 and the Jowai District Council was carved out of it. In 1973, the United Khasi and Jaintia Hills District Council and the Jowai District Council were renamed as Khasi Hills Autonomous District Council (KHADC) and Jaintia Hills Autonomous District Council (JHADC) respectively. The Garo Hills Autonomous District Council (GHADC) was set up in June 1952 under Article 244(2) read with the Sixth Schedule to the Constitution of India.

Non-submission of Annual Accounts

As per the Fund Rules of JHADC and GHADC, the Annual Accounts were to be submitted to the AG (Audit) by 30th June of each year but no prescribed date was mentioned in the Fund Rules of the KHADC. The annual accounts of the ADCs were in arrears for two to five years, as indicated below:

Table 4.15: Arrears in submission of Annual Accounts

| Name of the ADCs | Due date for submission of Annual Accounts | Year of Annual Accounts received | Outstanding Annual Accounts |
|------------------|--|----------------------------------|-----------------------------|
| KHADC | 30 June | 2018-19 | 2019-20 to 2020-21 |
| GHADC | 30 June | 2015-16 | 2016-17 to 2020-21 |
| JHADC | 30 June | 2017-18 | 2018-19 to 2020-21 |

Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected. The State Government may advise the ADCs to finalise the arrear accounts and submit them to the Accountant General.

Utilisation of grants

During the period 2016-17 to 2020-21, the ADCs received grants (Central and State) for implementation of various development schemes. The details of utilisation of such grants are as under:

Table 4.16 : Utilisation of Central grants

| (₹ in crore) | | | | |
|------------------|---------|---|-------------------|--------------------------------|
| Name of the ADCs | Year | Name of the Central Grant | Amount Sanctioned | Amount for which UCs submitted |
| KHADC | 2016-17 | Special Assistance released by the Ministry of Finance, GoI | 133.12 | 120.20 |
| | | Construction of District Councils Building under Art.275(1) | 1.20 | 1.20 |
| | 2017-18 | Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance | 32.25 | 30.83 |
| | 2018-19 | | 50.18 | Nil |
| | 2019-20 | | 50.18 | Nil |
| 2020-21 | Nil | | Nil | |
| JHADC | 2016-17 | Special assistance released by the Ministry of Finance, GoI | 33.57 | 30.72 |
| | | Construction of District Councils Building under Art.275(1) | 1.81 | 1.81 |
| | 2017-18 | Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance | 10.75 | 6.40 |
| | 2018-19 | | 16.73 | Nil |
| | 2019-20 | | 16.73 | Nil |
| 2020-21 | Nil | | Nil | |
| GHADC | 2016-17 | Special Assistance released by the Ministry of Finance, GoI | 100.71 | 84.79 |
| | | Construction of District Councils Building under Art.275(1) | 1.83 | 1.32 |
| | 2017-18 | Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance | 28.66 | 24.01 |
| | 2018-19 | | 44.60 | Nil |
| | 2019-20 | | 44.61 | Nil |
| 2020-21 | Nil | | Nil | |
| Total | | | 566.93 | 301.28 |

Table 4.17: Utilisation of State grants

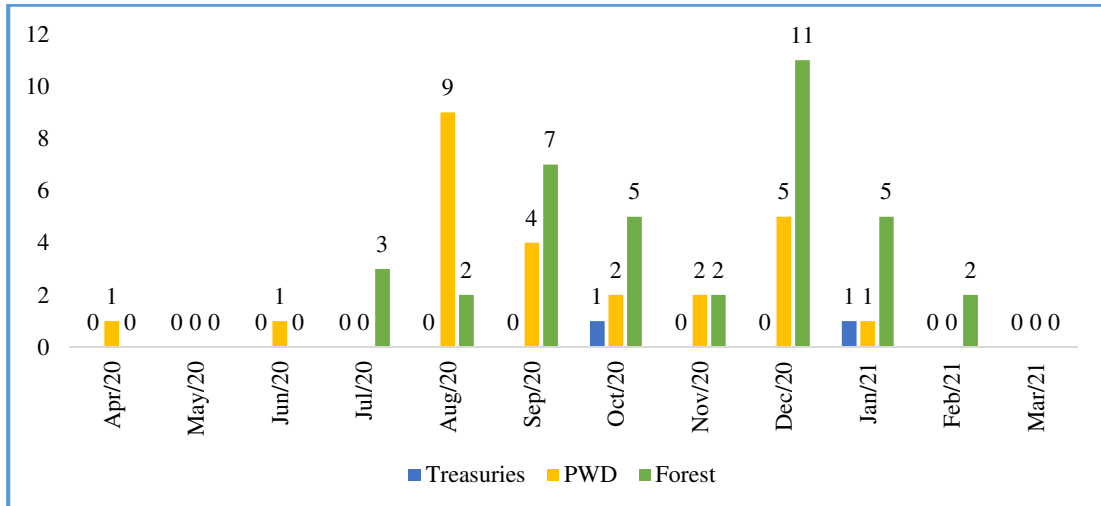
| (₹ in crore) | | | | |
|------------------|---------|---|-------------------|--------------------------------|
| Name of the ADCs | Year | Name of the State Grant | Amount Sanctioned | Amount for which UCs submitted |
| KHADC | 2017-18 | Financial assistance to District Council for financing their own plan schemes | 9.67 | 9.67 |
| | | Financial assistance to District Council for construction of council building | 0.18 | 0.18 |
| | 2020-21 | Financial assistance to District Council for Special purpose | 12.50 | Nil |
| JHADC | 2016-17 | Financial assistance to District Council for financing their own plan schemes | 33.57 | 33.57 |
| | | Financial assistance to District Council for construction of council building | 1.81 | 1.81 |
| GHADC | 2016-17 | Financial assistance to District Council for financing their own plan schemes | 100.71 | 100.71 |
| | | Financial assistance to District Council for construction of council building | 1.83 | 1.83 |
| | 2017-18 | Financial assistance to District Council for construction of council building | 0.16 | Nil |
| Total | | | 160.43 | 144.77 |

From **Table 4.16** above it is seen that out of the grants of ₹ 566.93 crore received as Central Grant during 2016-21, the ADCs could utilise only ₹ 301.28 crore (53 per cent) of the total fund allotted. Non-submission of the UCs means that the authorities have not explained as to how funds were spent over the years or they were not spent. The ADCs be advised to submit the pending UCs.

4.15 Timeliness and Quality of Accounts

The accounts of the State Government are compiled by the Accountant General (A&E) from the initial accounts rendered by district treasuries, sub-treasuries, Resident Commissioner (New Delhi), cyber treasury, public works divisions (PWD) and forest divisions, apart from the RBI advices. There are often delays in rendition of monthly accounts. Due to the failure of the account rendering units to furnish accounts on time, some accounts are excluded from the monthly Civil Accounts by the Accountant General (A&E). The position of exclusion of monthly Civil Accounts during 2020-21 is shown in the Chart below: -

Chart 4.3: Number of accounts excluded from monthly Civil Accounts during 2020-21



As can be seen from above, zero to one account of treasury divisions, zero to nine accounts of PWD and zero to 11 accounts of forest divisions were excluded from monthly Civil Accounts during the year. Exclusion of accounts not only distorts the budgetary position of the Government, but also impacts its monitoring of fund flow to the last mile of implementation, its planned pacing of expenditure on developmental programmes, providing intended benefits to the targeted beneficiaries, functioning of departments *etc.* during the year. The State Government needs to monitor closely and ensure the rendition of accounts by all the account rendering authorities to the Accountant General (A&E) on a timely basis, to manage its own budget more effectively.

4.16 Misappropriations, losses, thefts, etc.

According to Rule 112 of the Meghalaya Financial Rules, 1981, any defalcation or loss of public money or other property discovered in Government Treasury or other office or department, which is under the audit of the Accountant General, should be

immediately reported to the Accountant General, even when such loss has been made good by the person responsible for it. Further, in all cases of theft, misappropriation, fraud and loss involving Government money, the First Information Report (FIRs) should invariably be lodged with the Police Department.

State Government reported 72 cases of theft, misappropriation and loss involving Government money amounting to ₹ 1.15 crore up to March 2021 on which final action was pending. A break up of pending cases and age-wise analysis is given in the table below:

Table 4.18: Pending cases of misappropriation, losses, theft, etc.

(₹ in crore)

| Name of Department | Cases of misappropriation/ losses /theft of Government material | | Reasons for the delay in final disposal of pending cases of misappropriation, losses, theft, etc. | | | | | |
|-------------------------------|---|-------------|---|--------------|---|--------------|---|--------|
| | | | Awaiting departmental and criminal investigation | | Departmental action initiated but not finalised | | Criminal proceedings finalised but recovery of the amount pending | |
| | Number of cases | Amount | Number of cases | Amount | Number of cases | Amount | Number of cases | Amount |
| Public Works | 4 | 0.18 | - | - | 4 | 0.18 | - | - |
| Horticulture | 1 | 0.21 | - | - | 1 | 0.21 | - | - |
| Community & Rural Development | 1 | 0.03 | - | - | 1 | 0.03 | - | - |
| Legislative Assembly | 2 | 0.44 | 1 | 0.41 | 1 | 0.03 | - | - |
| Land Record and Survey | 1 | 0.02 | - | - | 1 | 0.02 | - | - |
| Mining & Geology | 1 | 0.17 | - | - | 1 | 0.17 | - | - |
| Finance | 1 | 0.02 | 1 | 0.02 | - | - | - | - |
| Health | 4 | 0.01 | 3 | 0.006 | 1 | 0.003 | - | - |
| Public Health Engineering | 57 | 0.07 | 56 | 0.06 | 1 | 0.01 | - | - |
| Total | 72 | 1.15 | 61 | 0.496 | 11 | 0.653 | - | - |

Source: Information furnished by the respective departments.

Out of ₹ 1.15 crore, the highest amount of misappropriation of ₹ 0.44 crore pertained to Meghalaya Legislative Assembly involving two cases.

4.17 Follow up action on State Finances Audit Report

The Audit Reports can achieve the desired results only if they evoke positive and adequate response from the administration itself. To ensure accountability of the executive about the issues contained in the Audit Reports, the Public Accounts Committee of Meghalaya Legislative Assembly issued instructions (July 1993) for submission of *suo motu* explanatory notes by the concerned administrative departments within one month of presentation of the Audit Reports to the State Legislature.

The State Finances Audit Report for the years from 2008-09 to 2019-20 were placed before the State Legislature in March 2010, March 2011, March 2012, April 2013, June 2014, March 2015, March 2016, March 2017, April 2018, September 2019, November 2020 and September 2021 respectively. However, *suo motu* explanatory notes on the observations made in those Audit Reports were not furnished by the Departments. Some random replies on only certain portions of Appendices to these Reports were sent by some Departments after placing of these Reports in the Legislative Assembly.

4.18 Conclusion

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.

4.19 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.

The 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.