

CHAPTER I-GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenues raised by the Government of Meghalaya during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are shown below:

Table 1.1

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14 ¹
1.	Revenues raised by the State Government					
	• Tax revenue	444.29	571.45	697.54	847.72	949.29
	• Non-tax revenue	275.09	301.69	368.24	484.94	598.15
	Total	719.38	873.14	1065.78	1332.66	1547.44
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	612.38	901.65	1,044.19	1192.45	1301.96
	• Grants-in-aid	2,115.59	2,491.23	2,544.50	3011.22	3417.29
	Total	2,727.97	3,392.88	3,588.69	4203.67	4719.25
3.	Total revenue receipts of the State Government (1 and 2)	3,447.35	4,266.02	4,654.47	5536.33	6266.69
4.	Percentage of 1 to 3	20.87	20.47	22.90	24.07	24.69

(Source: Finance Accounts)

The above table indicates that during the year 2013-14, the revenues raised by the State Government (₹ 1547.44 crore) was 24.69 per cent of the total revenue receipts as against 24.07 per cent in the preceding year. The balance 75.31 per cent of receipts during 2013-14 was from the Government of India.

1.1.2 The details of the tax revenue raised during the period 2009-10 to 2013-14 are given in **Table 1.2**.

¹ For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Meghalaya for the year 2013-14. Figures under the head 0020 - Corporation tax; 0021 - Taxes on income other than corporation tax; 0032 - Taxes on wealth; 0037 - Customs; 0038 - Union excise duties; 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - 901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

Table- 1.2 (Details of Tax Revenue)

(₹ in crore)

Sl. No.	Head of Revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Taxes on sales, trade etc.	289.42	321.40	324.16	412.88	418.20	512.50	517.17	631.12	622.83	723.65	(+) 20.43	(+) 14.66
2	State Excise	80.15	90.29	100.19	104.50	124.42	131.50	143.08	153.01	161.69	162.66	(+) 13.01	(+) 6.31
3	Motor Vehicles Tax	14.48	13.61	15.64	19.19	18.59	31.12	31.62	35.82	38.87	36.71	(+) 22.93	(+) 2.48
4	Stamps Duty	8.11	11.02	8.60	10.76	12.29	9.08	12.44	10.31	14.06	9.77	(+) 13.02	(-) 5.24
5	Land Revenue	2.81	0.26	2.99	17.11	3.23	2.40	3.59	6.27	4.02	3.47	(+) 11.98	(-) 44.65
6	Taxes and duties on electricity	1.20	0.05	1.26	0.26	1.36	0.87	1.37	0.93	1.37	1.89	0.00	(+) 103.23
7	Others	5.91	7.66	6.99	6.75	7.75	10.07	8.56	10.26	9.67	11.14	(+) 12.97	(+) 8.58
TOTAL		402.08	444.29	459.83	571.45	585.84	697.54	717.83	847.72	852.51	949.29		

(Source: Finance Accounts and Annual Financial Statement)

The respective Departments reported the following reasons for variations:

Taxes on sales, trade, etc.: The increase was mainly due to increase in tax on sale of motor spirits and lubricants and receipts under Central Sales Tax Act.

Land revenue: The decrease was due to the decrease of receipts under land revenue tax and other receipts.

State Excise: The increase was due to increase in receipts under Foreign Liquor and Spirits.

Taxes on vehicles: The increase was due to increase in receipts under the State Motor Vehicles Taxation Act.

Taxes and duties on electricity: The increase was due to increase in taxes on consumption and sales of electricity.

1.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table 1.3**.

Table- 1.3 (Details of Non-tax revenue raised)

(₹ in crore)

Sl. No.	Head of Revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Power	2.00	0.00	2.00	0.33	2.00	0.00	2.00	1.36	2.00	0.64	0.00	(+) 32.94
2	Interest receipts	11.23	23.28	12.24	24.72	23.64	27.13	26.01	25.38	27.45	33.57	(+) 5.54	(+) 32.27

3	Forestry and Wildlife	20.35	20.03	22.77	22.05	25.05	26.03	27.56	30.87	35.51	60.12	(+) 28.85	(+) 94.75
4	Public works	6.82	7.02	7.59	12.71	8.20	17.02	9.02	43.43	9.41	12.22	(+) 4.32	(-) 71.86
5	Miscellaneous general services	9.63	0.16	10.80	0.17	11.66	9.79	12.44	0.37	14.93	1.05	(+) 20.02	(+) 183.78
6	Other administrative services	5.00	7.90	5.45	8.01	5.88	4.84	6.31	3.36	4.97	7.85	(-) 21.24	(+) 133.63
7	Police	5.50	1.93	6.12	2.44	6.61	3.22	6.88	2.89	7.64	5.92	(+) 11.05	(+) 104.84
8	Medical and Public health	1.08	0.56	1.19	0.69	1.36	1.35	1.50	1.43	1.62	1.99	(+) 8.00	(+) 39.16
9	Co-operation	0.78	0.62	0.85	0.08	0.94	0.20	1.01	0.05	1.08	0.06	(+) 6.93	(+) 20.00
10	Other non-tax receipts	178.10	213.59	192.21	230.49	306.00	278.66	377.17	375.80	411.98	474.73	(+) 9.23	(+) 26.32
TOTAL		240.49	275.09	261.22	301.69	391.34	368.24	469.90	484.94	516.59	598.15		

(Source: Finance Accounts and Annual Financial Statement)

The following reasons for variations were reported by the Departments:

Mining and Geology Department: The increase was due to revision in the rate of royalty on coal.

The other Departments did not inform the reasons for variation despite being requested (April 2014 and July 2014).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 under some principal heads of revenue amounted to ₹ 98.16 crore of which ₹ 54.67 crore was outstanding for more than five years, as detailed in **Table 1.4**.

Table 1.4 (Arrears of revenue)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014	Replies of Department
1	0040- Taxes on Sale, Trade, etc.	65.35	22.15	The Departments did not furnish reasons for accumulation of arrears.
2	0039- State Excise	30.59	30.59	
3	0406- Forestry and Wildlife	2.20	1.91	
4	0029- Land Revenue	0.02	0.02	
Total		98.16	54.67	

(Source: Information furnished by the Departments)

It would be seen from the table that recovery of ₹ 98.16 crore was pending against four of the principal Heads of revenue which was six *per cent* of the State's own revenue collection for 2013-14. Revenue amounting to ₹ 54.67 crore (56 *per cent* of the total revenue arrears) was pending for recovery for more than five years which indicates that the chances of recovery of revenue is remote and also points to systemic weakness in the revenue recovery mechanism of the State Government.

1.3 Arrears of assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department is shown below in **Table 1.5**.

Table 1.5 (Arrears in assessments)

Head of revenue	Opening balance	New cases due for assessment during 2013-14	Total assessments due	Cases disposed of during 2013-14	Balance at the end of the year	Percentage of disposal (Col. 5 to 4)
0040 – Taxes on sale, trade, etc.	22143	29483	51626	9535	42091	18

(Source: Information furnished by the Departments)

It may be seen from the above that although a good number of cases were disposed during 2013-14, the percentage of disposal compared to the cases due for assessment was only 18 *per cent* which has resulted in piling up of arrears of assessment. Pendency in assessments will result in non/short realisation of Government revenues and may result in further accumulation in arrear revenue.

1.4 Evasion of tax detected by Departments

The details of cases of evasion of tax detected by Sales Tax Department, cases finalised and the demands for additional tax raised as reported by the Department during 2013-14 are given in **Table 1.6**.

Table- 1.6 (Evasion of Tax)

(₹ in crore)

Sl. No.	Head of revenue	Cases pending ² as on 31 March 2013	Cases detected during 2013-14	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalization as on 31 March 2014
					Number of cases	Amount of demand	
1	0040	427	159	586	--	--	586

(Source: Information furnished by the Departments)

The other Departments did not inform the position of tax evasion cases despite being requested (April 2014 and July 2014).

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Department is given in **Table 1.7**.

² Information not provided by the Department. The opening balance here refers to the cases detected and lying in arrears for the last five years.

Table 1.7 (Details of pendency of refund cases)

(in ₹)

Sl. No.	Particulars	Sales tax/ VAT		State Excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	02	1072000	NIL	
2.	Claims received during the year	03	23000		
3.	Refunds made during the year	03	23000		
4.	Balance outstanding at the end of the year	02	1072000		

(Source: Information furnished by the Departments)

The Meghalaya Value Added Tax Act provides for payment of interest in case of refund at the rate of 8 per cent per annum if the amount is not refunded to the dealer within 90 days from the date of any order authorising such refund. As such, the Department may expedite the process of refund in such cases which are outstanding to avoid payment of interest on delayed refund.

1.6 Response of the Government/Departments towards audit

The succeeding paragraphs 1.6.1 to 1.6.7 discuss the response of the Departments/Government to audit.

1.6.1 Failure of senior officials to enforce accountability and protect the interest of the State Government

The Accountant General (AG) (Audit), Meghalaya conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during such inspection not settled on the spot. The IRs are issued to the heads of offices with copies forwarded to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are separately reported to the heads of the Departments and the Government.

Review of IRs issued up to March 2014 disclosed that 750 paragraphs involving money value of ₹ 1568.32 crore relating to 214 IRs remained outstanding at the end of June 2014 as mentioned in Table 1.8.

Table 1.8 (Position of outstanding IRs)

Number of outstanding IRs	June 2011	June 2012	June 2013	June 2014
	154	181	174	214
Number of outstanding audit observations	661	747	676	750
Amount involved (₹ in crore)	1487.85	1300.75	1235.76	1568.32

Department-wise details of IRs, audit observations pending settlement as on 30 June 2014 and the amounts involved are mentioned in Table 5.

Table 1.9 (Outstanding IRs and paragraphs)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise, Registration, Taxation & Stamps	(a) Taxes on sales, trade, etc.	71	297	624.69
		(b) State Excise	31	92	25.01
		(c) Stamps & Registration	19	26	2.02
		(d) State Lotteries	1	1	15.87
2.	Transport	Taxes on motor vehicles	46	162	488.29
3.	Mines and Minerals	Non-ferrous mining and metallurgical industries	23	62	361.21
4.	Environment and Forests	Forestry and wild life	23	110	51.23
Total			214	750	1568.32

In respect of six IRs issued during 2013-14, even the first reply required to be received from the heads of offices within one month from the date of issue of the IRs were not received upto December 2014. Pendency of IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the Audit in the IRs.

1.6.2 Departmental Audit Committee Meetings

The Government has set up audit committees to monitor and expedite the progress of settlement of IRs and paragraphs contained in the IRs. Details of audit committee meetings held during 2013-14 and paragraphs settled are mentioned in **Table 1.10**.

Table 1.10 (Position of Audit Committee Meetings)

Name of the Department	Number of meetings held	Number of paragraphs settled
Environment & Forest Department	01	41
Total	01	41

(₹ in crore)

The position of Audit Committee Meetings remained the same as compared to the previous year.

An analysis of the total outstanding paragraphs indicated that highest number of audit objections were outstanding in respect of the Taxation Department. In such a situation, it is imperative that the Taxation Department in particular and the other Departments in general make efforts to arrange Audit Committee Meetings at regular intervals so that the position can be improved.

1.6.3 Position of Inspection Reports

The summarised position of Inspection Reports (IRs) issued during the year 2013-14 including those of previous four years and their status as on 01 April 2014 are tabulated below:

Table 1.11 (Position of Inspection Reports)

Year	Opening balance			Addition			Clearance			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2009-10	310	817	1,306.86	38	161	804.30	46	98	279.35	302	880	1,831.81
2010-11	302	880	1,831.81	55	220	269.78	203	444	613.74	154	656	1,487.85
2011-12	154	656	1,487.85	34	222	844.51	24	143	508.58	164	735	1,823.78
2012-13	164	735	1,823.78	52	272	471.13	39	314	1055.12	177	693	1,239.79
2013-14	177	693	1239.79	50	265	644.90	13	183	198.13	214	775	1686.56

(₹ in crore)

It would be seen from the above table that number of outstanding IRs and audit which was the highest in 2009-10 has come down over the years but still more efforts need to be made by the Departments to take action in view of the audit observations including holding frequent Audit Committee Meetings so that the number of IRs and paragraphs come down further.

1.6.3 Non-production of records to audit for scrutiny

The programme of local audit of Tax Revenue/ Non-tax Revenue offices is drawn up sufficiently and intimations are issued, usually one month before the commencement of audit, to the Departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2013-14, not a single case relating to non-cooperation with the audit teams or non-production of records to the audit teams were reported which indicates that a cordial relation exists between the audited entities and audit and is commendable.

1.6.5 Response of the Departments to the draft audit paragraphs

The draft paragraphs are forwarded to the secretaries of the concerned Departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the departments is invariably indicated at the end of each such paragraph included in the Audit Report.

Twenty-nine audit paragraphs and one Performance Audit proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2014, Government of Meghalaya were forwarded to the Secretaries of the respective Departments between July 2014 and September 2014. Out of these, reply was furnished to only one Performance Audit up to December 2014. The remaining 29 paragraphs have been included without the response of the Government.

The lack of response of the Departments to the draft audit paragraphs is a matter of concern and the Government may address this issue at the earliest.

1.6.6 Follow up on Audit Reports

The internal working system of the Public Accounts Committee, notified in December 2012, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Two hundred and twenty nine paragraphs (including Performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Meghalaya for the years ended 31 March 2009, 2010, 2011, 2012 and 2013 were placed before the State Legislature between May 2010 and June 2014. The *suo motu* explanatory notes from the concerned Departments are awaited in respect of 158 of the paragraphs (November 2014).

The PAC discussed 19 selected paragraphs pertaining to the Audit Reports for the years from 2008-09 to 2009-10 and its recommendations on 14 paragraphs were incorporated in their Reports (2008-09 to 2009-10). However, Action Taken Notes (ATNs) have not been received in respect of 14 recommendations of the PAC from the Departments concerned as mentioned in **Table 1.12**.

Table 1.12 (outstanding ATNs)

Year	Name of the Department	Number of ATNs awaited
2008-09	Sales Tax	11
2009-10	Sales Tax	02
2009-10	Stamps and Registration	01
Total		14

1.6.7 Compliance with earlier Audit Reports

During the years from 2009-10 to 2013-14, the Departments/Government accepted audit observations having revenue implication of ₹ 2495.07 crore (out of the total money value of ₹ 4392.46 crore) of which only ₹ 173.84 crore had been recovered till March 2014 as mentioned in **Table 1.13**.

Table 1.13 (Compliance with earlier Audit Reports)

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Amount recovered during the year
2009-10	1036.25	1.96	0.58
2010-11	1836.44	1587.03	172.99
2011-12	444.93	178.06	0.27
2012-13	888.40	681.81	--
2013-14	186.44	46.21	--
Total	4392.46	2495.07	173.84

The amount recovered was thus only 6.97 *per cent* of the accepted amount while the Government/Departments have accepted 56.80 *per cent* of the cases included in the Audit Reports. Thus the percentage of recovery against the accepted cases has been very low.

The Government/Departments should take urgent steps to ensure recovery of the amount pointed out in Audit Reports atleast in respect of the accepted cases.

1.7 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the effectiveness of system for addressing the issues highlighted in the IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last five years by one Department has been evaluated and results included in this Audit Report.

The succeeding paragraphs 1.7.1 to 1.7.2 discuss the performance of the **State Excise Department** in dealing with cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2009-10 to 2012-13.

1.7.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on September 2014 are shown below:

Table 1.14 (Position of Inspection Reports)

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2009-10	60	315	66.17	8	33	46.02	21	96	48.02	47	252	64.17
2010-11	47	252	64.17	21	34	39.33	44	213	49.84	24	73	53.66
2011-12	24	73	53.66	16	39	42.93	17	47	49.99	23	65	46.60
2012-13	23	65	46.60	6	24	3.09	4	26	39.28	25	66	10.41
2013-14	25	66	10.41	5	36	26.36	--	10	16.53	30	92	20.24

Thus, during the last five year period, the closing balance of IRs and paragraphs has been more or less at the same level due to a high number of paragraphs being cleared every year which indicates that positive steps were being taken by the Department to address audit observations.

1.7.2 Recovery of accepted cases

The position of paragraphs pertaining to the State Excise Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2013-14 are mentioned below:

Table 1.15 (Status of recovery of accepted cases)

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year (2012-13)
2008-09	1	68.66	1	68.59	0.16
2009-10	8	4.82	2	0.39	0.12
2010-11	4	0.99	--	--	--
2011-12	4	0.90	4	0.90	0.27
2012-13	6	3.46	--	--	--
Total	23	78.83	7	69.88	0.55

During the last five years, the Department accepted 07 out of the 23 audit paragraphs (including one PA) and recovered ₹ 0.55 crore which is less than one per cent of the accepted cases. This is a matter of concern.

1.8 Action taken on the recommendations of Audit

The performance audits conducted by the AG (Audit) are forwarded to the concerned departments/Government with a request to furnish their replies. These performance audits are also discussed in the Exit Conference and the Department's/Government's views received during the Exit Conferences and at other points are included while finalising the performance audits for the Audit Reports.

The following table shows the issues highlighted in the Performance Audit on the State Excise Taxation Department that featured in the Audit Report for the year ended 31 March 2009 including the recommendations and action taken by the Department/ Government.

Table 1.16

Year of Audit Report	Name of the performance audit	Major Recommendations	Action taken by the Department/ Government
2008-09	Receipts from, State Excise	<ul style="list-style-type: none"> ➤ Setting up of a departmental laboratory. ➤ Review the brand slabs and include import fee as an element of cost price. ➤ Carrying our regular inspections of licenced outlets as per instructions laid down in the Act. ➤ Setting up of integrated checkgates ➤ Revising the security fee slabs ➤ Ensuring that licences are renewed in advance and imposing penalty for late renewal 	<p>The brand slabs have been reviewed and cost price has been re-defined.</p> <p>Security fee slabs have been revised.</p> <p>In respect of other recommendations, the same had been accepted but action taken was awaited (November 2014)</p>

The Government needs to devise suitable mechanism to monitor and ensure that the concerned Departments examine the recommendations offered by Audit through the reviews/performance audits etc. to assure good governance, plug scope for leakage and optimise revenue potential. However, implementation of some of the recommendations signals positive attitude of the Department towards audit findings.

1.9 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* include critical issues in Government revenues and tax administration *i.e.* budget speech, white paper on State Finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during past five years *etc.*

During the year 2013-14, out of 124 auditable units, 54 units were audited. Besides, one Performance Audit on “**Working of bonded warehouses and distilleries/breweries (including bottling plants)**” was also conducted.

1.10 Results of audit

1.10.1 Position of local audits conducted during the year 2012-13

Test check of the records of taxes on sale, trade *etc.*, state excise, motor vehicles tax, forest receipts and other non-tax receipts conducted during the year 2013-14 revealed under assessments/short/non-levy/loss of revenue amounting to ₹ 598.25 crore in 283 cases. During the year, the Departments accepted under assessments/short/non levy/loss of revenue of ₹ 439.19 crore in 213 cases pointed out in 2013-14 and recovered ₹ 0.34 crore³.

1.10.2 Coverage of this Report

This Report contains 29 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) and one Performance Audit on “Working of bonded warehouses and distilleries/breweries (including bottling plants)” involving financial effect of ₹ 165.82 crore.

The Departments/ Government have accepted audit observations involving ₹ 46.21 crore but no recovery was intimated. The replies in the remaining cases have not been received (November 2014). All these are discussed in the succeeding **Chapters II to VII**.

³ The recovery pertains to only those cases pointed out during the year 2013-14. The actual recovery during the year 2013-14 was higher.