

OVERVIEW

This Report contains a Performance Audit on “*Working of Taxation Check Gates in Meghalaya*”, an audit on the theme of “*Deduction of Tax at Source*” and 32 paragraphs relating to under-assessments/ non-realisation /short realisation of penalties, taxes, duties and financial irregularities involving ₹ 353.24 crore, and a Follow Up Report on a previous Performance Audit on “*Transition from Sales Tax to VAT*”. The major findings are mentioned below:

Chapter-I: General

- During the year 2014-15, the revenues raised by the State Government (₹ 1282.50 crore) was 19.95 *per cent* of the total revenue receipts (₹ 6428.27 crore). The balance 80.05 *per cent* of receipts during 2014-15 comprised of State's share of divisible taxes and duties amounting to ₹ 1381.69 crore and grants-in-aid from Government of India amounting to ₹ 3764.08 crore.

Paragraph 1.1

- 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 2014-15 revealed under assessments/short/non-levy/loss of revenue amounting to ₹ 625.26 crore in 331 cases. During the year, the departments accepted under assessments/short/non-levy/loss of revenue of ₹ 157.23 crore in 141 cases pointed out in 2014-15, and recovered ₹ 0.03 crore.

Paragraph 1.10.1

Chapter-II: Taxes on Sale, Trade, *etc.*

- A Performance Audit on “*Working of Taxation Check Gates in Meghalaya*” revealed the following irregularities:

There was disproportionate distribution of staff vs vehicles' movement in the check gates. During the last six years, not a single manpower need analysis was undertaken by Taxation Department in order to ascertain the actual requirements of the check gates *vis-à-vis* the volume of workload.

Para 2.4.8.1

No records were available at the check gates to ensure that physical verification of vehicles was done as per the norms. There was lack of monitoring to ensure that prescribed norms for inspection of vehicles as fixed was followed by all check gates. Infrastructural facilities for inspection of vehicles were also lacking considerably at the check gates.

Para 2.4.8.2

Failure to effectively monitor movement of overloaded vehicles resulted in movement of 76,214 MT of excess load of coal and 53,364 MT of excess load of limestone through the check gates which resulted in loss of revenue of ₹ 12.84 crore to the State due

to additional security (in the form of advance tax) and penalty not being realised.

Para 2.4.8.3

Between 2009-10 and 2013-14, two taxation check gates detected 26,762 offence cases on which composition fee of ₹ 29.80 lakh only was realised as against ₹ 13.38 crore as per the provision of the MVAT Act.

Para 2.4.8.5

Most of the check gates were housed in dilapidated structures which were not suitable for storage and use of IT equipment, records and registers. Only two gates i.e., Umkiang, and Byrnihat were functional in respect of online data recording. Absence of proper infrastructure created a hindrance in effective discharge of duties by the officials.

Para 2.4.8.10

Absence of a check gate at the last exit point of the National Highway rendered the objective of setting up of a check gate at Byrnihat futile as the Department had no control over the import of taxable goods into the State by dealers situated in the areas between Byrnihat and Khanapara.

Para 2.4.8.11

The Department had not prescribed any norms for periodic inspection of check gates by supervisory officers. Three most important check gates (Byrnihat, Dainadubi and Umkiang) cumulatively reported only 4 inspections (6 *per cent*) during the last six years with not a single inspection at the Commissioner of Taxes level.

Para 2.4.9.2

➤ An audit on the theme of “Deduction of Tax at Source revealed the following irregularities:

Out of seven departments test checked by audit, VAT of ₹ 7.98 crore was not deducted/ short deducted by the DDOs from 670 contractors’ bills. Further, failure of the departments to deduct VAT at source from the bills of the contractors and also non-submission of details of works to the respective STs resulted in evasion of VAT of ₹ 1.68 crore by the contractors.

Para 2.5.7.1

Decision of the departments to award works to dealers/ contractors who were not registered in the State resulted in loss of revenue of ₹ 18.80 crore to the State.

Para 2.5.7.2

Wrong computation of taxable turnover by the DDO from the contractors’ bills resulted in loss of revenue of ₹ 15.24 crore to the State and undue benefit was given to the contractors to that extent.

Para 2.5.7.3 A

Due to incorrect application of rate of works contract by the DDO, there was short-realisation of VAT of ₹ 2.54 crore.

Para 2.5.7.4

Undue benefit of ₹ 37.81 crore was extended to a contractor by the ST due to incorrect application of rate of VAT on works contract and unrealistic assessment of taxable turnover.

Para 2.5.9.1

Internal control mechanism was weak as was evident from the fact that there was no regular conduct of trainings, seminars and workshops on TDS and also failure of the Taxation Department to impose penalties against erring departments for non- deduction of TDS.

Para 2.5.8

Transaction Audit

➤ Failure to carry out timely assessment allowed a dealer to escape the liability to pay tax amounting to ₹ 0.08 crore on which penalty of ₹ 0.16 crore and interest of ₹ 0.28 crore was not levied.

Paragraph 2.6

➤ A dealer fraudulently claimed ITC of ₹ 3.84 crore on which penalty of ₹ 7.68 crore and interest amounting to ₹ 5 crore was not realised.

Paragraph 2.7

➤ Failure of the Superintendent of Taxes to timely assess a dealer resulted in loss of revenue due to underassessment of tax amounting to ₹ 4.82 crore due to acceptance of fake declaration forms on which penalty of ₹ 9.64 crore and interest amounting to ₹ 7.76 crore was not levied.

Paragraph 2.8

➤ A dealer concealed purchase of ₹ 42.79 crore and evaded tax of ₹ 6.37 crore on which penalty of ₹ 9.56 crore and interest amounting to ₹ 2.93 crore was not levied.

Paragraph 2.9

➤ Failure of the ST to assess the liability of electricity duty on MeECL resulted in electricity duty amounting to ₹ 13.74 crore not being realised on which penalty of ₹ 54.96 crore was not levied.

Paragraph 2.10

➤ An industrial unit irregularly claimed excess remission on sale of ₹ 2.20 crore resulting in short payment of tax of ₹ 0.11 crore on which penalty of ₹ 0.22 crore and interest of ₹ 0.05 crore was not levied.

Paragraph 2.11

➤ Allowance of incorrect rate of tax by the ST and furnishing of revised returns by the dealer with reduced turnover resulted in underassessment of tax amounting to ₹ 0.10 crore on which penalty of ₹ 0.20 crore and interest of ₹ 0.05 crore was not levied.

Paragraph 2.12

- A dealer belatedly paid the tax for which ₹ 0.37 crore was leviable as interest against which ₹ 0.01 was levied thereby resulting in short levy of interest amounting to ₹ 0.36 crore.

Paragraph 2.13

- A dealer concealed turnover of ₹ 37.45 crore on sale of coal and evaded tax of ₹ 1.50 crore on which penalty of ₹ 3 crore and interest of ₹ 0.33 crore was not levied.

Paragraph 2.14

- There was under assessment of tax amounting to ₹ 0.86 crore due to allowance of concessional rate of tax on inter-State sale of coal not supported by 'C' forms on which penalty of ₹ 1.71 crore and interest of ₹ 0.19 crore was not levied.

Paragraph 2.15

Chapter-III: State Excise

- Three bottling plants fraudulently concealed 2.44 lakh BL of ENA and evaded excise duty of ₹ 3.14 crore.

Paragraph 3.4

- Short levy of *ad-valorem* duty on cost price resulted in short-realisation of excise duty amounting to ₹ 0.15 crore.

Paragraph 3.5

- Forty-four IMFL retail licencees failed to renew their licences resulting in revenue amounting to ₹ 0.36 crore not being realised.

Paragraph 3.6

- Cancellation of six IMFL/Bar licences without realisation of licence fees led to loss of revenue amounting to ₹ 0.07 crore.

Paragraph 3.7

- The Department failed to realise Security Deposit of ₹ 0.34 crore from 30 companies/Bonded Warehouses/distilleries/IMFL licencees.

Paragraph 3.8

- Twenty-five distilleries/companies failed to register the brand names of 115 brands resulting in revenue amounting to ₹ 0.52 crore not being realised.

Paragraph 3.9

Chapter-IV: Motor Vehicle Receipts

➤ Due to undue benefit granted to three weighbridge lessees and leases of six other weighbridges not being renewed, there was a loss of revenue of ₹ 6.90 crore.

Paragraph 4.4

➤ The Enforcement Branch failed to detect movement of 45753 trucks carrying load in excess of the permissible limit resulting in short realisation of fine amounting to ₹ 28.35 crore.

Paragraph 4.5

➤ Irregular registration of commercial trucks as private carriers resulted in short realisation of road tax amounting to ₹ 1.06 crore.

Paragraph 4.6

➤ Two DTOs realised ₹ 0.48 crore, as fine from 2415 trucks carrying excess load, instead of ₹ 0.72 crore resulting in short levy of fine of ₹ 0.24 crore.

Paragraph 4.7

➤ Registration certificates of 22717 private vehicles were not renewed, resulting in registration fess amounting to ₹ 4.46 crore not being realised, on which, penalty amounting to ₹ 4.54 crore was also leviable.

Paragraph 4.8

Chapter-V: Forest & Environment

[Part-A: Revenue Receipts]

➤ Failure of the DFO to take timely action against a Forest Beat office resulted in loss of revenue due to short realisation of export fee amounting to ₹ 0.22 crore.

Paragraph 5.4

➤ There was short realisation of revenue amounting to ₹ 2.37 crore by the user departments.

Paragraph 5.5

➤ Due to lack of co-ordination between Government Departments, 34 exporters/companies concealed 3.77 lakh MT quantity of limestone actually consumed/exported thereby resulting in evasion of royalty of ₹ 1.91 crore.

Paragraph 5.6

➤ Inaction of the Forest Department resulted in irregular diversion of 642.87 ha of forest lands by six cement companies and Net Present Value amounting to ₹ 42.24 crore not being realised.

Paragraph 5.7

➤ Licences were granted to 44 applicants for operation of saw/veneer mills on which ₹ 0.17 crore was realisable against which, the Department realised ₹ 0.06 crore resulting in short realisation of licence fees amounting to ₹ 0.11 crore.

Paragraph 5.8

[Part-B: Expenditure]

➤ Unauthorised release of funds indicating arbitrary decisions of the then CEO of the Meghalaya State Medicinal Plants Board resulted in fraudulent financial transactions of ₹ 2.85 crore in the implementation of several plantation schemes.

Paragraph 5.9

➤ Land acquisition proceedings of the Mawpalai Afforestation Area (1.78 sq.km) were flawed and consequently, an amount of ₹ 8 crore (80 *per cent* of compensation) was fraudulently released to the village representative for a fictitious land acquisition when actually the land was and continues to be in the possession of the Soil & Water Conservation Department, Government of Meghalaya.

Paragraph 5.10

Chapter-VI: Mining Receipts

➤ Inaction of the Department resulted in royalty amounting to ₹ 62.14 crore on 9.21 lakh MT of coal procured by eight cement manufacturing units not being realised.

Paragraph 6.4

➤ There was a short-realisation of royalty amounting to ₹ 0.42 crore by a checkgate due to under reporting of 7142 MT of excess load of coal on which penalty of ₹ 0.11 crore was also leviable.

Paragraph 6.5

➤ Under reporting of 1.77 lakh MT of limestone exported to Bangladesh resulted in short-realisation of cess of ₹ 0.35 crore.

Paragraph 6.6

➤ Interest amounting to ₹ 0.45 crore was not realised from two lessees for belated payment of dues.

Paragraph 6.7

Chapter-VII: Follow Up Audit

➤ A Follow Up was done on the recommendations made in the Performance Audit on “Transition from Sales Tax to VAT in Meghalaya” which was featured in the Audit Report for the year ended 31 March 2009. Some of the major findings of the Follow Up Report are as follows:

Out of the 26 audit/PAC recommendations, the Department accepted 21 recommendations, out of which, the Department had completed action on eight recommendations while in case of five, the Department had initiated action but it was yet to be completed. In case of remaining eight recommendations, the Department had failed to take any action or partially taken action despite accepting them.

Para 7.1.4

The Department stated that three checkgates were computerised while steps were being taken for setting up of integrated checkgates. Audit verification, however, revealed that only two checkgates were fully interlinked while in case of the third checkgate, the modem was damaged and the same had not been replaced.

Para 7.1.4.2

It was observed that that the Taxation Department was yet to create a database of dubious/risky dealers. This resulted in continued loss of revenue due to evasion of tax by unscrupulous dealers as is being pointed out by audit year after year.

Para 7.1.4.7

It was observed that the number of cases scrutinised was very low compared to the number of dealers. However, the Department did not prescribe targets for completion of scrutiny by STs stating that the same was not feasible.

Para 7.1.4.10

The Department had prepared the VAT Manual for audit assessments. However, the Department did not fix a criteria for selection of dealers to provide for flexibility while making such selections.

Para 7.1.4.12

It was observed that the Taxation Department had not prescribed any mechanism for cross-verification of dealers' records with other departments such as Income Tax, Central Excise *etc.*, in order to detect evasion of tax. Although the Department had issued instructions to the STs to cross-verify the records of doubtful dealers with the Central departments, the STs were yet to comply with the instructions.

Para 7.1.4.16