

# **CHAPTER-I**

## **GENERAL**



## 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 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from Government of India (GoI) during the year and the corresponding figures for the preceding four years are shown below:

**Table 1.1**

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16 <sup>1</sup>
1.	<b>Revenues raised by the State Government</b>					
	• Tax revenue	697.54	847.72	949.29	939.21	1056.82
	• Non-tax revenue	368.24	484.94	598.15	343.29	228.60
	<b>Total</b>	<b>1,065.78</b>	<b>1,332.66</b>	<b>1,547.44</b>	<b>1,282.50</b>	<b>1,285.42</b>
2.	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	1,044.19	1,192.45	1,301.96	1,381.69	3,276.46
	• Grants-in-aid	2,544.50	3,011.22	3,417.29	3,764.08	2,481.25
	<b>Total</b>	<b>3,588.69</b>	<b>4,203.67</b>	<b>4,719.25</b>	<b>5,145.77</b>	<b>5,757.71</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>4,654.47</b>	<b>5,532.33</b>	<b>6,266.69</b>	<b>6,428.27</b>	<b>7,043.13</b>
4.	<b>Percentage of 1 to 3</b>	<b>22.90</b>	<b>24.10</b>	<b>24.69</b>	<b>19.95</b>	<b>18.25</b>

(Source: Finance Accounts)

The above table indicates that during the year 2015-16, the revenues raised by the State Government (₹ 1285.42 crore) was 18.25 *per cent* of the total revenue receipts as against 19.95 *per cent* in the preceding year. The balance 81.75 *per cent* of receipts during 2015-16 was from the Government of India.

**1.1.2** The following table presents the details of Budget Estimates (BE) and actual tax revenues raised during the period 2011-12 to 2015-16:

<sup>1</sup> For details, please see Statement No. 14 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Meghalaya for the year 2015-16. 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	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	418.20	512.50	517.17	631.12	622.83	723.65	914.90	726.20	766.36	811.79	(-) 16.24	(+) 11.79
2.	State Excise	124.42	131.50	143.08	153.01	161.69	162.66	205.16	151.14	194.15	170.04	(-) 5.37	(+) 12.50
3.	Motor Vehicles Tax	18.59	31.12	31.62	35.82	38.87	36.71	50.00	39.38	29.45	42.01	(-) 41.10	(+) 6.68
4.	Stamp duty	12.29	9.08	12.44	10.31	14.06	9.77	16.66	9.90	12.59	12.74	(-) 24.43	(+) 28.69
5.	Land revenue	3.23	2.40	3.59	6.27	4.02	3.47	4.22	0.08	4.77	3.18	(+) 13.03	(+) 3875.00
6.	Taxes and duties on electricity	1.36	0.87	1.37	0.93	1.37	1.89	1.72	0.81	1.98	3.32	(+) 15.12	(+) 309.88
7.	Others	7.75	10.07	8.56	10.26	9.67	11.14	13.65	11.71	9.07	13.74	(-) 33.55	(+) 17.34
	<b>TOTAL</b>	<b>585.84</b>	<b>697.54</b>	<b>717.83</b>	<b>847.72</b>	<b>852.51</b>	<b>949.29</b>	<b>1206.31</b>	<b>939.22</b>	<b>1018.37</b>	<b>1056.82</b>	<b>(-) 15.58</b>	<b>(+) 12.52</b>

(Source: Finance Accounts)

The following reasons for variations between BE and actuals were reported by the major tax departments:

**Taxes on sales, trade etc.:** The increase was due to increase in taxes on sale of motor spirits and lubricants and Trade Tax.

**State Excise:** The increase was due to increase in receipts under foreign liquor and spirits.

**Motor Vehicles Tax:** The increase was due to increase in other receipts including receipts under the Motor Vehicles Act.

**Stamp duty:** The increase was due to increase in sales of stamps.

**Land Revenue:** The increase was due to increase in receipts under revenue collection from permanently settled areas and other receipts.

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

**1.1.3** The details of the BE and actual non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in **Table 1.3:**

Table 1.3 (Non-Tax Revenue)

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Mining receipts	276.42	262.58	343.62	357.97	375.80	455.75	516.00	195.10	112.21	60.75	(-) 78.25	(-) 68.86
2.	Interest receipts	23.64	27.13	26.01	25.38	27.45	33.57	31.61	37.73	34.77	39.33	(+) 10.00	(+) 4.24
3.	Forestry and wildlife	25.05	26.03	27.56	30.87	35.51	60.12	40.83	71.99	68.44	72.08	(+) 67.62	(+) 0.13
4.	Public works	8.20	17.02	9.02	43.43	9.41	12.22	10.35	6.28	12.57	8.40	(+) 21.45	(+) 33.76
5.	Miscellaneous general services	11.66	9.79	12.44	0.37	14.93	1.05	16.53	0.02	18.75	0.12	(+) 13.43	(+) 500.00
6.	Other administrative services	5.88	4.84	6.31	3.36	4.97	7.85	8.11	6.13	8.86	3.49	(+) 9.25	(-) 43.07
7.	Police	6.61	3.22	6.88	2.89	7.64	5.92	8.41	3.85	9.69	16.28	(+) 15.22	(+) 322.86
8.	Medical and public health	1.36	1.35	1.50	1.43	1.62	1.99	1.98	2.72	2.12	1.55	(+) 7.07	(-) 43.01
9.	Co-operation	0.94	0.20	1.01	0.05	1.08	0.06	1.11	0.05	1.45	0.04	(+) 30.63	(-) 20.00
10.	Other receipts	31.58	16.08	35.55	19.19	38.18	19.62	44.53	19.42	43.31	26.60	(-) 2.74	(+) 36.97
	<b>TOTAL</b>	<b>391.34</b>	<b>368.24</b>	<b>469.90</b>	<b>484.94</b>	<b>516.59</b>	<b>598.15</b>	<b>679.46</b>	<b>343.29</b>	<b>312.17</b>	<b>228.60</b>	<b>(-) 54.06</b>	<b>(-) 33.41</b>

(Source: Finance Accounts)

The following reasons for variations between BE and actuals were reported by the major non-tax departments:

**Mining receipts:** The decrease was due to decrease in receipts from royalty on coal under the Mineral Concession fees, rents and royalties.

**Interest receipts:** The increase was due to increase in interest realised on investment of cash balances.

**Public works:** The increase was due to increase in hire charges of machinery and equipment and other receipts.

### 1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 under some principal heads of revenue amounted to ₹ 105.29 crore, of which, ₹ 50.13 crore was outstanding for more than five years as detailed in Table 1.4.

Table 1.4

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Department's reply
1	0040-Taxes on Sale, Trade etc.	104.91	49.80	The Department stated that accumulation of arrears was due to reassessment and appeals.

2	0039- State Excise	0.31	0.31	The Department stated that accumulation of arrears were due to non-payment of the 50 per cent share by village chiefs.
3	0029- Land Revenue	0.07	0.02	--
	<b>Total</b>	<b>105.29</b>	<b>50.13</b>	

(Source: Information furnished by the Departments)

It would be seen from the above table that recovery of ₹ 105.29 crore was pending against three of the principal heads of revenue which was 8.19 per cent of the State's own revenue collection for 2015-16. Revenue amounting to ₹ 50.13 crore (47.61 per cent of the total revenue arrears) was pending for recovery for more than five years which indicates that the chances of recovery 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 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year	Percentage of disposal (Col. 5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>0040- Taxes on sales, trade, etc.</b>	48705	40262	88967	44279	44688	49.77

(Source: Information furnished by the Department)

It may be seen from the above that although a good number of cases were disposed during 2015-16, the percentage of disposal compared to the cases due for assessments was only 49.77 per cent which has resulted in increase of arrears of assessments. Pendency in assessments may result in non/short realisation of Government revenues and 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 demands for additional tax raised as reported by the Department during 2015-16 are given in **Table 1.6**.

Table 1.6 (Evasion of tax)

Sl. No.	Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	Number of cases in which assessment/investigation completed and additional demand with penalty <i>etc.</i> raised		Number of cases pending for finalisation as on 31 March 2016
					Cases	Demand raised	
1	0040	586	835	1421	815	1.57	606

(₹ in crore)

(Source: Information furnished by the Department)

The other departments did not inform the position of tax evasion cases despite being requested (May 2016 and September 2016).

### 1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Department is given in **Table 1.7**.

Table 1.7 (Details of pendency of refund cases)

Sl. No.	Particulars	Sales Tax/VAT		State Excise	
		No. of cases	Amount (in ₹)	No. of cases	Amount
1	Claims outstanding at the beginning of the year	02	10,72,000	Information not available	
2	Claims received during the year	05	3,32,28,558		
3	Refunds made during the year	--	--		
4	Balance outstanding at the end of the year	07	3,43,00,558		

(Source: Information furnished by the departments)

The Meghalaya Value Added Tax Act provides for the 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/Governments to audit.

#### 1.6.1 Position of outstanding Inspection Reports

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 upto March 2016 disclosed that 1058 paragraphs involving money value of ₹ 1124.57 crore relating to 264 IRs remained outstanding at the end of June 2016 as mentioned in **Table 1.8**.

**Table 1.8 (Position of outstanding IRs)**

Year/Details	June 2013	June 2014	June 2015	June 2016
Number of outstanding IRs	174	214	254	264
Number of outstanding audit observations	676	749	999	1058
Amount involved (₹ in crore)	1235.76	1568.32	1889.89	1124.57

Department-wise details of IRs, audit observations pending settlement as on 30 June 2016 and the amounts involved are mentioned in **Table 1.9**.

**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.	91	378	247.78
		(b) State Excise	46	175	47.43
		(c) Stamps & Registration	15	27	2.00
		(d) State Lotteries	01	01	15.87
2.	Transport	Taxes on motor vehicles	66	247	51.37
3.	Mines and Minerals	Mining receipts	16	64	634.50
4.	Environment and Forests	Forestry and wild life	29	166	125.62
<b>Total</b>			<b>264</b>	<b>1058</b>	<b>1124.57</b>

In respect of 12 IRs out of 37 IRs issued during 2015-16, even the first reply required to be received from the heads of offices within one month from the date of issue of the IRs was not received upto September 2016. Pendency of IRs due to non-receipt of the replies

may be because the Heads of offices and Heads of the departments had not initiated any action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

### 1.6.2 Departmental Audit Committee Meetings (ACMs)

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 ACMs held during 2015-16 and paragraphs settled are mentioned in **Table 1.10**.

**Table 1.10 (Position of ACMs)**

(₹ in crore)

Name of the Department	Number of ACMs held	Number of paragraphs discussed	Number of paragraphs settled	Amount
Forests & Environment Department	01	27	09	4.91
Mining & Geology	01	43	24	26.15
Stamps & Registration	01	14	12	0.16
<b>Total</b>	<b>03</b>	<b>84</b>	<b>45</b>	<b>31.22</b>

During the year, three ACMs were held in which 84 paras were discussed and 45 paras (54 per cent) were dropped on the basis of the replies provided by the concerned departments.

### 1.6.3 Summarised position of Inspection Reports

The summarised position of IRs issued during the year 2015-16 including those of previous four years and their status as on 01 April 2016 are mentioned in **Table 1.11**.

**Table 1.11 (Position of IRs)**

(₹ in crore)

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
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
2014-15	214	775	1686.56	52	331	625.26	01	126	1274.67	265	980	1037.15
2015-16	265	980	1037.15	37	249	635.57	30	160	542.45	272	1069	1130.27

It would be seen from the above table that number of outstanding IRs and audit observations has shown an increase in 2015-16 over 2014-15 which indicates that the departments have made little progress in settlement of the audit observations. This indicates that the departments need to take suitable action to settle the audit observations by holding ACMs so that the number of IRs and audit observations may decrease.

### 1.6.4 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 2015-16, no case relating to non-cooperation with the audit teams or non-production of records to the audit teams were reported.

#### **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-eight audit paragraphs and a Performance Audit (PA), proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2016, Government of Meghalaya, were forwarded to the Secretaries of the concerned departments between June 2016 and August 2016. However, reply was furnished only in respect of the PA upto December 2016. The remaining 28 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 (PAC), 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 of the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed. Two hundred and ninety three paragraphs (including Performance Audits) 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, 2013, 2014 and 2015 were placed before the State Legislature between May 2010 and March 2016. The *suo motu* explanatory notes from the concerned Departments are awaited in respect of 185 paragraphs (December 2016).

The PAC discussed 35 selected paragraphs<sup>2</sup> between April 2011 and March 2016 and their recommendations on 14 paragraphs were incorporated in two PAC Reports (37<sup>th</sup> and 39<sup>th</sup> Reports) for the years 2008-09 and 2009-10. However, Action Taken Notes (ATNs)

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<sup>2</sup> Pertaining to the Audit Reports for the years 2008-09, 2009-10, 2013-14 and 2014-15.

have not been received (December 2016) in respect of 14 recommendations made by 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
<b>Total</b>		<b>14</b>

### **1.6.7 Compliance with earlier Audit Reports**

During the period from 2011-12 to 2015-16, the departments accepted audit observation involving revenue implication of ₹ 1079.62 crore (out of the total money value of ₹ 2651.36 crore) of which only ₹ 6.24 crore had been recovered till December 2016 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
2011-12	444.93	178.06	0.27
2012-13	888.40	681.81	--
2013-14	186.44	46.21	--
2014-15	457.45	167.72	--
2015-16	674.14	5.82	5.97
<b>Total</b>	<b>2651.36</b>	<b>1079.62</b>	<b>6.24</b>

The amount recovered was thus only 0.58 *per cent* of the accepted amount while the Government/departments have accepted 40.72 *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 may take steps to ensure recovery of the outstanding amount in the case accepted by the Department.*

### **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/Governments, the action taken on the paragraphs and performance audits included in the Audit Reports of the last five years by the **Transport Department** has been evaluated and results included in this Audit Report.

#### **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 2016 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
2011-12	35	114	1.10	07	37	337.45	02	07	336.91	40	144	1.64
2012-13	40	144	1.64	06	39	31.16	01	06	4.93	45	177	27.87
2013-14	45	177	27.87	06	39	141.36	--	11	3.29	51	205	165.94
2014-15	51	205	165.94	08	34	139.60	--	16	72.62	59	223	232.92
2015-16	59	223	232.92	07	42	49.87	--	19	231.42	66	247	51.37

### 1.7.2 Recovery of accepted cases

The position of paragraphs pertaining to the Transport Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2015-16 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 (2015-16)
2010-11	06	1.95	--	--	--
2011-12	04	120.19	--	--	--
2012-13	05	90.14	--	--	--
2013-14	05	46.59	02	2.28	--
2014-15	05	45.55	--	--	--
<b>Total</b>	<b>25</b>	<b>304.42</b>	<b>02</b>	<b>2.28</b>	<b>--</b>

During the last five years, the Department accepted two out of the 25 audit paragraphs. However, against the accepted cases involving an amount of ₹ 2.28 crore, the department failed to make any recovery which is a matter of concern.

### 1.8 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 2015-16, out of 125 auditable units, 50 units were audited. Besides this, a PA on “Functioning of the Transport Department” was also conducted.

**1.9 Results of audit****1.9.1 Position of local audits conducted during the year 2015-16**

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 2015-16 revealed under assessments/short/non-levy/loss of revenue amounting to ₹ 635.57 crore in 249 cases. During the year, the departments accepted under assessments/short/non-levy/loss of revenue of ₹ 451.57 crore in 147 cases pointed out in 2015-16 and recovered ₹ 1.83 crore<sup>3</sup>.

**1.10 This Report**

This Report contains 28 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 PA on “Functioning of Transport Department” involving ₹ 659.71 crore.

The Departments have accepted audit observations involving ₹ 5.82 crore but no recovery was intimated. The replies in the remaining cases have not been received (December 2016).

<sup>3</sup> The recovery pertains to only those cases pointed out the year 2015-16. The actual recovery during the year 2015-16 was higher.