

# **CHAPTER – I**

## **GENERAL**





## CHAPTER-I: GENERAL

### 1.1 Trend of Revenue Receipts

Revenue Receipts of the State comprise the following:-

- Tax and non-tax revenues raised by Government of Meghalaya,
- 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.

Details of revenue receipts of Meghalaya during 2018-19 *vis-à-vis* the corresponding figures for the preceding four years are depicted in *Table 1.1*.

*Table 1.1 Trend of Revenue Receipts*

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	<b>Revenues raised by the State Government</b>					
	Tax revenue	939.21	1056.82	1186.01	1450.10	1793.24
	Non-tax revenue	343.29	228.60	685.24	366.63	427.70
	<b>Total</b>	<b>1282.50</b>	<b>1285.42</b>	<b>1871.25</b>	<b>1816.73</b>	<b>2220.94</b>
2.	<b>Receipts from the Government of India</b>					
	Share of net proceeds of divisible Union taxes and duties	1381.69	3276.46	3911.05	4323.14	4889.07
	Grants-in-aid	3764.08	2481.25	3156.65	3133.61	2608.61
	<b>Total</b>	<b>5145.77</b>	<b>5757.71</b>	<b>7067.70</b>	<b>7456.75</b>	<b>7497.68</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>6428.27</b>	<b>7043.13</b>	<b>8938.95</b>	<b>9273.48</b>	<b>9718.62</b>
4.	<b>Percentage of 1 to 3</b>	<b>19.95</b>	<b>18.25</b>	<b>20.93</b>	<b>19.59</b>	<b>22.85</b>

Source: Finance Accounts, Government of Meghalaya

The table above indicates that during the year 2018-19, the revenue raised by the State Government (₹2220.94 crore) was 22.85 *per cent* of the Total Revenue Receipts as against 19.59 *per cent* in the preceding year. The remaining 77.15 *per cent* of receipts during 2018-19 were received from Government of India.

Revenue Receipts during the year increased by ₹445.14 crore (4.80 *per cent*) over the previous year. The increase was mainly on account of increase in tax revenue by ₹343.14 crore (23.66 *per cent*). The increase was offset by decrease of ₹525 crore under Grants-in-aid.

Table 1.2 presents the actual tax receipts of the State during the five-year period 2014-19 along with their composition.

**Table 1.2 Details of Tax Revenue**

(₹ in crore)

Head of revenue	2014-15	2015-16	2016-17	2017-18	2018-19		Percentage of	
					BEs	Actuals	BEs 2018-19	Increased(+)/ decreased (-) over 2017-18
Taxes on sales, trade etc.	726.20	811.79	931.06	766.63	1339.73	627.50	107.00	(+)25.45
Goods & Services Tax	--	--	--	376.00	0	805.96		
State Excise	151.14	170.04	168.98	199.30	263.50	226.21	85.85	(+)13.50
Motor Vehicles Tax	39.38	42.01	48.22	67.01	69.94	86.95	124.32	(+)29.75
Stamp duty	9.90	12.74	17.19	20.25	19.39	26.19	135.07	(+)29.33
Land revenue	0.08	3.18	1.27	2.08	1.54	2.73	177.27	(+)31.25
Taxes and duties on electricity	0.81	3.32	2.34	1.82	2.48	2.56	103.22	(+)40.66
Others	11.71	13.74	16.95	17.01	13.45 <sup>1</sup>	15.14	112.57	(-)10.99
<b>TOTAL</b>	<b>939.22</b>	<b>1056.82</b>	<b>1186.01</b>	<b>1450.10</b>	<b>1710.03</b>	<b>1793.24</b>	<b>104.86</b>	<b>(+)23.66</b>

Source: Finance Accounts and Budget, Government of Meghalaya

It appears from the above table that during 2018-19 the actual realization was 104.86 per cent of the Budget Estimates (BE). The percentage of realization under different heads ranged between 85.85 per cent to 177.27 per cent of the BEs which indicate that the budget was not prepared based on realistic estimates. It was further observed that revenue on account of Goods and Services Taxes (GST) was not estimated in the Budget although the details of minimum assured revenue from GST, based on the formula devised by the GoI, were available with the State Government. As per the formula, minimum assured revenue for the year 2018-19 was ₹942.52 crore (base year revenue ₹636.17 crore).

Tax Revenue increased by ₹343 crore (23.66 per cent) in 2018-19 as compared to the previous year. The increase was mainly contributed by the following- 'State GST' (SGST) by ₹429.96 crore (114.35 per cent); Motor Vehicles Tax by ₹19.94 crore (29.76 per cent); and State Excise by ₹26.91 crore (13.50 per cent).

The increase was primarily due to an increase in input tax credit cross utilisation of SGST and Integrated GST (IGST), advance apportionment from IGST, etc., under SGST, increase in collection of revenue on account of duty under Foreign Liquor and spirits and an increase in collection of revenue under Indian Motor Vehicles Act and State Motor Vehicles Taxation Act. However, the reasons for increase/ decrease of revenue collection under the remaining heads of tax revenue had not been intimated by the departments concerned (September 2020).

Details of actual non-tax revenue realised by the State Government during the period 2014-15 to 2018-19 are indicated in Table 1.3.

<sup>1</sup> Budget Estimates under Heads of Expenditure - 0028 and 0045.

Table 1.3 Non-Tax Revenue

(₹ in crore)

Head of revenue	2014-15	2015-16	2016-17	2017-18	2018-19		Percentage of	
	Actuals				BEs	Actuals	BEs (2018-19)	Increased(+)/ decreased (-) over 2017-18
Mining receipts	195.10	60.75	469.52	207.88	291.39	147.56	50.62	(-)29.01
Interest receipts	37.73	39.33	46.25	52.50	47.60	58.26	122.39	(+)10.97
Forestry and wildlife	71.99	72.08	103.99	55.61	114.39	78.31	68.46	(+)40.82
Public works	6.28	8.40	10.21	17.01	11.60	17.65	152.16	(+)3.70
Miscellaneous General services	0.02	0.12	1.06	0.94	15.61	0.86	5.51	(-)8.51
Other administrative services	6.13	3.49	3.11	3.76	7.18	17.64	245.68	(+)369
Police	3.85	16.28	25.21	4.51	7.88	16.27	206.47	(+)260.75
Medical and public health	2.72	1.55	1.58	2.04	2.16	1.85	85.65	(-)9.31
Co-operation	0.05	0.04	0.05	0.04	2.20	13.51	514.10	(+)33675
Other receipts	19.42	26.60	24.26	22.34	38.09 <sup>2</sup>	75.79	188.98	(+)239.25
<b>TOTAL</b>	<b>343.29</b>	<b>228.64</b>	<b>685.24</b>	<b>366.63</b>	<b>538.10</b>	<b>427.70</b>	<b>79.48</b>	<b>(+)16.65</b>

Source: Finance Accounts and Budget, Government of Meghalaya

It appears from the above table that during 2018-19 the actual revenue realization was 79.48 per cent of the Budget Estimates. The percentage of revenue realized under different heads, ranged between 5.51 per cent to 514.10 per cent of the BE which indicate that the budget was not prepared based on realistic estimates. During the five-year period 2014-19, except during 2016-17, actual receipts on account of non-tax revenue resources have not matched the budgetary estimates in any year.

The State Government needs to review its revenue estimation and collection mechanism and put in place adequate measures to enable it to prepare a more realistic budget and strengthen its revenue collection apparatus.

While the actual Non-tax revenue did not match the BEs during 2018-19, it increased by ₹61.07 crore (16.65 per cent) during the year, over the previous year. The increase was mainly under Forestry and Wildlife by ₹22.70 crore (40.82 per cent) and Co-operation by ₹13.47 crore (33675 per cent).

The increase in receipts under Forestry and Wildlife were due to increased sale of timber and other forest produce. However, reasons for increase/decrease of revenue collection under Mining and other heads of accounts were not intimated by the departments concerned (September 2020).

### 1.2 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2019 under some principal heads of revenue were ₹103.64 crore, of which, arrears amounting to ₹50.47 crore were outstanding for more than five years as detailed in Table 1.4.

<sup>2</sup> Total Budget Estimates = ₹538.10 crore - ₹500.01 crore (of sl. No. 1 to 9)

**Table 1.4 Details of arrears of revenue collection**

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2019		Department's reply
		Total	For more than 5 years	
1.	0040-Taxes on Sale, Trade etc.	75.71	31.72	Reply was not furnished by the Department
2.	0039- State Excise	0.31	0.31	Accumulation of arrears was due to non-payment of revenue share by the outstill <sup>3</sup> licences.
3.	0406-Forestry and Wildlife	27.62	22.00	The arrear accumulation was mainly due to short payment of royalty by line departments, cement companies etc. However, an amount of ₹3.05 crore from the arrear revenue had been realised upto August 2019.
<b>Total</b>		<b>103.64</b>	<b>54.03</b>	

Source: Information collected from the Departments

It would be seen from the above Table that recovery of ₹103.64 crore was pending against three principal heads of revenue, which was 4.67 per cent of the State's own revenue collection for 2018-19. Revenue amounting to ₹54.03 crore (52.13 per cent of the total revenue arrears) was pending for recovery for more than five years. It indicates that the chances of recovery are remote and also points to systemic weakness in the revenue recovery mechanism of the State Government. Other departments<sup>4</sup> did not intimate the arrears of revenue despite repeated requests (February 2020).

### 1.3 Arrears of VAT assessment

The periodical tax returns filed by the dealers under Meghalaya Value Added Tax Act, 2003, are subject to assessment by the Taxation Authorities to verify and ascertain their correctness and completeness. Taxation Authorities may take recourse to best judgement assessment in case returns are not furnished by a registered dealer within the prescribed time limit.

The details of cases of Taxes on Sales, Trades etc., pending for assessment at the beginning of the year, cases becoming due for assessment and cases disposed of during the year, and cases pending for finalisation at the end of the year are shown below in Table 1.5.

**Table 1.5 Arrears in assessments**

Head of Account	Opening balance as on 1 April 2018	New cases due for assessment during 2018-19	Total assessments due	Cases disposed of during 2018-19	Balance at the end of the year	Percentage of disposal (Col. 5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0040- Taxes on sales, trade etc.	46456	215643	262099	161108	100991	61.47

Source: Information furnished by Taxation Department

<sup>3</sup> Outstills are vends for distillation and sale of country liquor.

<sup>4</sup> Transport, Mining & Geology, Stamps & Registration and Land Revenue Departments.

It appears from the table that at the end of the year, the pending cases for assessment increased by 54535 (117 *per cent*) over the balance at the beginning of the year. There were 100991 cases pending for assessments at the end of the year. The State Government should put in place a mechanism to expedite the disposal of cases pending for assessment.

#### 1.4 Evasion of Tax Detected by Department

The details of cases of evasion of tax detected by Taxation Department, cases finalised and demands for additional tax raised as reported by the Department during 2018-19 are given in *Table 1.6*.

*Table 1.6 Evasion of tax*

Head of revenue	Cases pending as on 31 March 2018	Cases detected during 2018-19	Total	Number of cases in which assessment/investigation were completed and additional demand with penalty <i>etc.</i> raised		Number of cases pending for finalisation as on 31 March 2019
				Cases	Demand raised (₹ in crore)	
0040	374	13390	13764	11563	3.57	2201

(Source: Information furnished by the Department)

During 2018-19, the Department detected 13390 case of evasion of tax and disposed of 11563 cases and demand notice of ₹3.57 crore was raised. At the end of the year, there were 2201 cases pending disposal.

The Department may take initiative to dispose all the pending cases in time-bound manner.

#### 1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2018-19, claims received during the year, refunds allowed during the year and the cases pending at the end of the year 2017-18, as reported by the Taxation Department are given in *Table 1.7*.

*Table 1.7 Details of pendency of refund cases*

Sl. No.	Particulars	Sales Tax/VAT	
		No. of cases	Amount (₹ in crore)
1.	Claims outstanding at the beginning of the year	07	3.43
2.	Claims received during the year	19	13.40
3.	Refunds made during the year	0	0
4.	Balance outstanding at the end of the year	26	16.83

It appears from the above table that outstanding cases at the beginning of the year were still pending at the end of the year. The Meghalaya Value Added Tax Act provides for the payment of interest at the rate of eight *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.

**Recommendation:** The Department needs to put in place a mechanism to monitor pendency of refund cases to ensure that there is no delay in refund dues.

### 1.6 Response of the Government/departments towards audit

The succeeding paragraphs 1.6.1 to 1.6.4 discuss the response of the Departments/Government to audit.

#### 1.6.1 Position of outstanding Inspection Reports

The Accountant General (AG) (Audit), Meghalaya conducts periodical inspection of Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules of procedure. These inspections are followed up by Inspection Reports (IRs) incorporating irregularities detected during such inspections that could not be settled during audit for want of credible replies/responses by the audited entities. The IRs are issued to the heads of offices with copies forwarded to the next higher level for taking prompt corrective action. The heads of the offices/Government Departments are required to promptly respond to the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the AG (Audit), within one month from the date of issue of the IRs. Irregularities of a serious nature are separately reported to the heads of the departments and the Government for eventual inclusion in the Report of the Comptroller and Auditor General (CAG) of India, if audit is not satisfied by the responses of the Department to such observations.

Review of IRs issued up to March 2019 disclosed that 1577 paragraphs involving a money value of ₹1941.06 crore relating to 389 IRs remained outstanding at the end of June 2019 as mentioned in Table 1.8 for want of replies or unacceptable replies by various government offices/departments.

**Table 1.8 Position of Outstanding IRs and Paragraphs**

Year/Details	June 2016	June 2017	June 2018	June 2019
Number of outstanding IRs	264	308	346	389
Number of outstanding audit observations	1058	1403	1417	1577
Amount involved (₹ in crore)	1125	1775	1573.69	1941.06

Department-wise details of IRs, audit observations pending settlement as on 30 June 2019 and the amounts involved are mentioned in Table 1.9.

**Table 1.9 Department wise position of outstanding IRs and paragraphs**

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding		Money value involved (₹ in crore)
			IRs	Audit observations	
1.	Excise, Registration, Taxation & Stamps	(a) Taxes on sales, trade, etc.	137	755	1170.15
		(b) State Excise	67	278	104.25
		(c) Stamps & Registration	28	56	10.80
		(d) State Lotteries	01	01	34.80
2.	Transport	Taxes on motor vehicles	85	134	87.54
3.	Mines and Minerals	Mining receipts	21	75	142.13
4.	Environment and Forests	Forestry and Wild life	50	278	391.39
<b>Total</b>			<b>389</b>	<b>1577</b>	<b>1941.06</b>



In respect of 17 IRs out of 51 IRs issued during 2018-19, 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 (December 2019). Pendency of IRs due to non-receipt of the replies may be because the Heads of Office and Heads of the Department have not initiated any action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

**Recommendation:** *The Department should take action to clear all outstanding IRs/Paragraphs by furnishing replies within the prescribed time frame.*

### **1.6.2 Summarised position of Inspection Reports**

The summarised position of IRs issued during the year 2018-19 including those of the previous four years and their status as on 01 April 2019 is given in *Table 1.10*.

**Table 1.10 Position of IRs**

(₹ in crore)

Year	Opening balance			Addition			Clearance			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
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
2016-17	272	1069	1130.27	49	397	877.87	04	49	203.64	317	1417	1804.50
2017-18	317	1417	1804.50	40	252	925.62	0	112	554.57	357	1557	2175.55
2018-19	357	1557	2175.55	51	380	1040.88	6	195	664.54	402	1742	2551.89

It would be seen from the above table that number of outstanding IRs and audit observations have increased in 2018-19 over 2017-18, which shows that the departments have not made progress in settlement of the audit observations. As such, the departments need to take suitable action to settle the audit observations.

### **1.6.3 Response of the Departments to Draft Audit Paragraphs**

Draft paragraphs are forwarded to the Secretaries of the Departments concerned 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 of the CAG of India.

Fourteen audit paragraphs and a Performance Audit on “*Roll out of GST in Meghalaya*” proposed to be included in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2019, Government of Meghalaya, were forwarded to the Secretaries of the departments concerned between October 2019 and January 2020. The departments furnished the replies in respect of all fourteen draft paragraphs and Performance Audit and the same were incorporated in the Report.

#### **1.6.4 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 CAG of India in the Legislative Assembly, the Departments should initiate action on the audit paragraphs. The Government should submit the Action Taken Notes (ATN) and Explanatory Notes (EN) on audit paragraphs within three months of tabling of the Report, for consideration of the Committee. In spite of these provisions, the ENs on audit paragraphs of the Reports are not received as per the prescribed time schedule. A total of 372 audit paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India (Revenue Sector), relating to Government of Meghalaya for the years ended 31 March 2009 to 2018, were placed before the State Legislature between May 2010 and September 2019. The *suo-motu* explanatory notes from the Departments concerned are awaited in respect of 159 paragraphs, which constitute 43 *per cent* of the total audit observations (January 2020).

The PAC discussed 52 selected paragraphs<sup>5</sup> between April 2011 and January 2020 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, ATNs have not been received from the Departments concerned (January 2020) in respect of 14 recommendations made by the PAC as mentioned in *Table 1.11*.

**Table 1.11 Outstanding ATNs**

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

#### **1.7 Analysis of the Mechanism for Dealing with the Issues raised by Audit**

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

##### **1.7.1 Position of Inspection Reports**

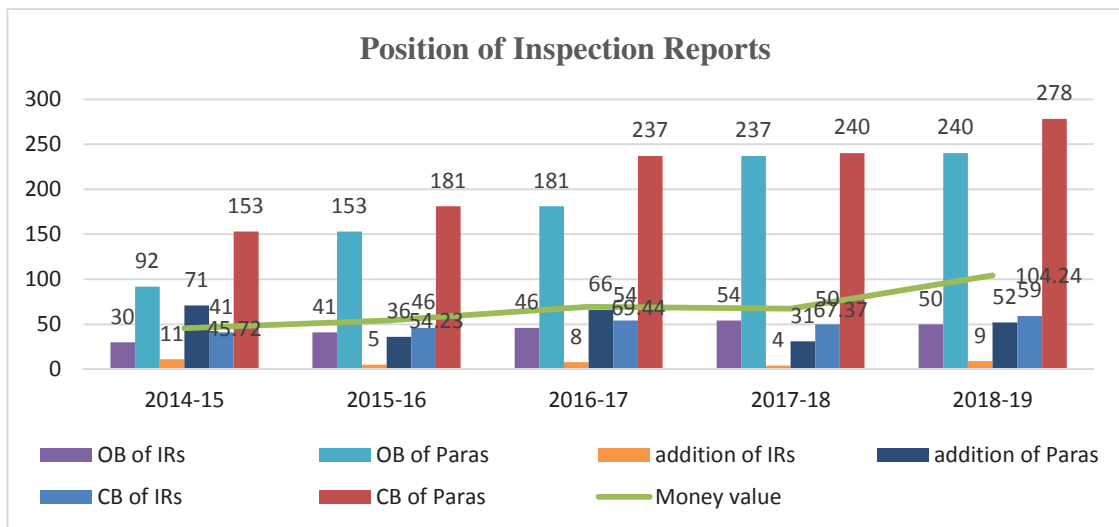
The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status in respect of Excise Department as on September 2019 are shown in *Table 1.12*.

<sup>5</sup> Pertaining to the Audit Reports for the years 2008-09, 2009-10, 2013-14, 2016-17 and 2017-18.

Table 1.12 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
2014-15	30	92	20.24	11	71	29.36	0	10	3.88	41	153	45.72
2015-16	41	153	45.72	05	36	10.29	0	08	1.78	46	181	54.23
2016-17	46	181	54.23	08	66	16.80	0	10	1.59	54	237	69.44
2017-18	54	237	69.44	04	31	10.78	8	28	12.85	50	240	67.37
2018-19	50	240	67.37	09	52	41.42	0	14	4.55	59	278	104.24



The clearance of IRs/Paras was insignificant which indicated that the Departments concerned had not taken necessary action for their disposal.

### 1.7.2 Recovery in respect of Accepted Cases

The position of paragraphs pertaining to the Excise Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2018-19 are mentioned in Table 1.13.

Table 1.13 Status of Recovery in respect 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 (2018-19)
2013-14	03	0.57	--	--	--
2014-15	06	4.58	--	--	--
2015-16	06	2.93	--	--	--
2016-17	05	2.74	--	--	0.59
2017-18	02	5.72	--	--	--
<b>Total</b>	<b>22</b>	<b>16.54</b>	<b>--</b>	<b>--</b>	<b>0.59</b>

### 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* includes 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 2018-19, out of 139 auditable units, 60 units (43 *per cent*) were audited.

### **1.9 Results of Audit – Position of local audits conducted during the year 2018-19**

Test check of records of taxes on sale, trade *etc.*, state excise, motor vehicles tax, forest receipts and other non-tax receipts conducted during the year 2018-19 revealed under-assessments/short/non-levy/loss of revenue amounting to ₹758.34 crore (which is 34 *per cent* of State's own tax revenue for 2018-19) in 347 cases. During the year, the departments accepted under-assessments/short/non-levy/loss of revenue amounting to ₹213.25 crore in 133 cases pointed out in 2018-19 and recovered ₹9.65 crore.

### **1.10 Internal Control**

Audit noticed that the revenue earning departments had weak internal controls to detect under-assessment, short payment, evasion of taxes, fees, royalties and other irregularities. There was no system in place to actively exchange information and co-ordinate amongst the departments for cross verification of records to detect illegal transportation of minerals, evasion of VAT, royalties, excise duties, *etc.*

### **1.11 This Report**

This Report contains a Performance Audit and 14 selected paragraphs from test audit done by the Accountant General (Audit), Meghalaya during the year 2018-19. Paragraphs from earlier years, which could not be included in the previous Audit Reports, have also been included. The Performance Audit on **“Roll out of GST in Meghalaya”** and the audit observations on other State Taxes/Revenues have a revenue implication of ₹200.35 crore. These audit paragraphs are discussed in the succeeding Chapters.

An amount of ₹3.38 crore was recovered by three departments<sup>6</sup> at the instance of Audit against the audit paragraphs.

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<sup>6</sup> State Excise Department, Stamps & Registration Department and Taxation Department.