

CHAPTER – I

GENERAL



CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The revenue receipts of the State comprised of:

- Tax and non-tax revenues raised by the 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.

The details along with the corresponding figures for preceding four years have been depicted in *Table 1.1*.

Table 1.1 Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Revenues raised by the State Government					
	Tax revenue	949.29	939.21	1056.82	1186.01	1450.10
	Non-tax revenue	598.15	343.29	228.60	685.24	366.63
	Total	1547.44	1282.50	1285.42	1871.25	1816.73
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	1301.96	1381.69	3276.46	3911.05	4323.14
	Grants-in-aid	3417.29	3764.08	2481.25	3156.65	3133.61
	Total	4719.25	5145.77	5757.71	7067.70	7456.75
3.	Total revenue receipts of the State Government (1 and 2)	6266.69	6428.27	7043.13	8938.95	9273.48
4.	Percentage of 1 to 3	24.69	19.95	18.25	20.93	19.59

(Source: Finance Accounts)

The above table indicates that during the year 2017-18, the revenue raised by the State Government (₹1816.73 crore) was 19.59 per cent of the total revenue receipts as against 20.93 per cent in the preceding year. The balance 80.41 per cent of receipts during 2017-18 were received from the Government of India.

Revenue receipts during the year increased by ₹334.53 crore (20 per cent) over the previous year. The increase was attributable to devolution of union taxes by ₹412.09 crore and Tax revenue by ₹264.09 crore. The increase was offset by decrease of ₹318 crore in Non-tax revenue and ₹23.04 crore under grant-in-aid.

1.1.2 The following *Table 1.2* presents the details of Budget Estimates (BE) and actual tax revenues raised during the period 2013-14 to 2017-18:

Table 1.2 Details of Tax revenue

(₹ in crore)

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+) or decrease (-) in 2017-18 over 2016-17	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	622.83	723.65	914.90	726.20	766.36	811.79	940.47	931.06	1223.25	766.63	(+)30.07	(+)22.72
	Goods & Services Tax	--	--	--	--	--	--	--	--	-- ¹	376.00		
2.	State Excise	161.69	162.66	205.16	151.14	194.15	170.04	238.24	168.98	229.13	199.30	(-)3.82	(+)17.94
3.	Motor Vehicles Tax	38.87	36.71	50.00	39.38	29.45	42.01	50.68	48.22	60.82	67.01	(+)20.00	(+)38.97
4.	Stamp duty	14.06	9.77	16.66	9.90	12.59	12.74	14.48	17.19	18.83	20.25	(+)30.04	(+)17.80
5.	Land revenue	4.02	3.47	4.22	0.08	4.77	3.18	5.49	1.27	5.60	2.08	(+)2.00	(+)63.78
6.	Taxes and duties on electricity	1.37	1.89	1.72	0.81	1.98	3.32	2.28	2.34	2.48	1.82	(+)8.77	(-)22.22
7.	Others	9.67	11.14	13.65	11.71	9.07	13.74	16.41	16.95	13.73	17.01	(-)16.33	(+)0.35
TOTAL		852.51	949.29	1206.31	939.22	1018.37	1056.82	1268.05	1186.01	1553.84	1450.10	(+)22.54	(+)22.27

(Source: Finance Accounts)

It appears from the above table that there were variation between the budget estimate and actual during 2017-18 under different heads of Tax revenue which indicated that the budget was not prepared on realistic basis.

Tax Revenue increased by ₹264 crore (22 per cent) in 2017-18 as compared to previous year, the increase was mainly contributed by 'Sales Tax' & 'State Goods and Services Tax' by ₹211.57 crore (22 per cent), Motor vehicle Tax ₹18.79 crore (39 per cent) and State Excise ₹30.32 crore (18 per cent).

The reasons for increase was due to introduction of GST in the State, revision of rates of tax on liquor, revision of licence fee/renewal fee, import pass fee and excise duty and revision of Motor vehicle licence fee, fitness fee etc.

¹ There was no separate budget provision for GST collection during the year 2017-18. It was included in the estimates under Taxes on sales, trade etc.

1.1.3 The details of the BE and actual non-tax revenue raised during the period 2013-14 to 2017-18 are indicated in *Table 1.3*.

Table 1.3 Non-Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+) or decrease (-) in 2017-18 over 2016-17	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Mining receipts	375.80	455.75	516.00	195.10	112.21	60.75	232.40	469.52	264.87	207.88	(+)13.97	(-)55.72
2.	Interest receipts	27.45	33.57	31.61	37.73	34.77	39.33	39.99	46.25	43.27	52.50	(+)8.20	(+)13.51
3.	Forestry and wildlife	35.51	60.12	40.83	71.99	68.44	72.08	81.85	103.99	112.55	55.61	(+)37.51	(-)46.52
4.	Public works	9.41	12.22	10.35	6.28	12.57	8.40	14.46	10.21	10.78	17.01	(-)25.45	(+)66.60
5.	Miscellaneous general services	14.93	1.05	16.53	0.02	18.75	0.12	21.56	1.06	14.50	0.94	(-)32.75	(-)11.32
6.	Other administrative services	4.97	7.85	8.11	6.13	8.86	3.49	10.19	3.11	6.67	3.76	(-)34.54	(+)20.90
7.	Police	7.64	5.92	8.41	3.85	9.69	16.28	11.14	25.21	7.32	4.51	(-)34.29	(-)82.11
8.	Medical and public health	1.62	1.99	1.98	2.72	2.12	1.55	2.44	1.58	1.96	2.04	(-)19.67	(+)29.11
9.	Co-operation	1.08	0.06	1.11	0.05	1.45	0.04	1.67	0.05	2.00	0.04	(+)19.76	(-)20.00
10.	Other receipts	38.18	19.62	44.53	19.42	43.31	26.60	50.46	24.26	10.26	22.34	(-)79.67	(-)7.9
	TOTAL	516.59	598.15	679.46	343.29	312.17	228.60	466.16	685.24	474.18	366.63	(+)1.72	(-)46.49

(Source: Finance Accounts)

It appears from the above table that there were variation between the budget estimate and actual during 2017-18 under different heads of Non-tax revenue which indicated that the budget was not prepared on realistic basis.

Non-Tax Revenue decreased by ₹318.61 crore (46 per cent) in 2017-18 over the previous year, the decrease was mainly under Mining receipts by ₹261.64 crore (56 per cent), Forestry and Wildlife by ₹48.38 crore (46 per cent) and Police by ₹20.7 crore (82 per cent). The decrease was partly offset by increase mainly under Public works by 6.80 crore (67 per cent).

The reason for decrease under 'Mining' and 'Forestry and Wildlife' was due to ban of mining activities in the State as per National Green Tribunal (NGT)'s order and judgement of Hon'ble High Court of Meghalaya. The reasons for decrease under 'Police' was due to less collection under police supplies to other government/other parties and less collection of fees, fines and forfeitures.

The increase in receipts under Public Works was due to increased sale proceeds of dead stock/waste paper and other articles.

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2018 under some principal heads of revenue were ₹326.78 crore, of which arrears amounting to ₹68.88 crore were outstanding for more than five years as detailed in *Table 1.4*.

Table 1.4 Details of arrears of revenue collection

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2018	Amount outstanding for more than 5 years as on 31 March 2018	Department's reply
1.	0040-Taxes on Sale, Trade etc.	93.17	22.50	Reply not furnished
2.	0039- State Excise	0.31	0.31	The arrear accumulation was due to non-payment of revenue share by the outstill ² licencees.
3.	0029- Land Revenue	0.08	0.07	Reply not furnished.
4.	0406-Forestry and Wildlife	26.07	23.50	The arrear accumulation was mainly due to non-payment of outstanding royalty by the cement companies and short payment of royalty by line departments (user agencies). However, an amount of ₹25 lakh from the arrear revenue had been realised during the year 2017-18.
5.	0853-Non-ferrous Mining and Metallurgical Industries	207.15	22.50	The arrears accrued primarily on account of non-payment of royalty on limestone extracted by the cement companies from their leases.
Total		326.78	68.88	

(Source: Information collected from the Departments during Audit)

It would be seen from the above *Table* that recovery of ₹326.78 crore was pending against five of the principal heads of revenue which was 17.97 per cent of the State's own revenue collection for 2017-18. Revenue amounting to ₹68.88 crore (21.08 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.

² Outstills are vends for distillation and sale of country liquor.

1.3 Arrears of assessments by Taxation Authorities

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. The Taxation authorities may take recourse to best judgement assessment in case returns are not furnished by a registered dealer in the prescribed time limit.

The details of cases of Taxes on sales, trade *etc.*, pending at the beginning of the year, cases becoming due for assessment, 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 revenue	Opening balance as on 1 April 2017	New cases due for assessment during 2017-18	Total assessments due	Cases disposed of during 2017-18	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 <i>etc.</i>	62146	48564	110710	64254	46456	58.04

(Source: Information furnished by the Taxation Department)

It may be seen from the Table that during the year 2017-18, the number of cases disposed of was more than the new cases that became due during the year. However pending cases for assessments were still very high (42 *per cent*) and Government should put in place a mechanism to expedite the disposal of pending assessment cases.

1.4 Evasion of tax detected by departments

The details of cases of evasion of tax detected by the Taxation Department, cases finalised and demands for additional tax raised as reported by the Department during 2017-18 are given in *Table 1.6*.

Table 1.6 Evasion of tax

Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	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 2018
				Cases	Demand raised (₹ in crore)	
0040	604	03	607	233	46.08	374

(Source: Information furnished by the Department)

There was significant improvement in the status of disposal of cases related to evasion of tax during the year 2017-18 by Taxation Department. The trend of disposal of old cases of evasion of tax needs to be maintained in coming years also.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2017-18, 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 is 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	03	2.58
3.	Refunds made during the year	03	2.58
4.	Balance outstanding at the end of the year	07	3.43

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 to avoid interest payments.*

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 Principal Accountant General (Pr. 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 inspections 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 Departments are required to promptly respond to the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Pr. 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 for eventual inclusion in the Report of the Comptroller and Auditor General (CAG) of India if not settled based on replies.

Review of IRs issued up to March 2018 disclosed that 1417 paragraphs involving money value of ₹1573.69 crore relating to 346 IRs remained outstanding at the end of June 2018 as mentioned in *Table 1.8*.

Table 1.8 Position of outstanding IRs and Paragraphs

Year/Details	June 2015	June 2016	June 2017	June 2018
Number of outstanding IRs	254	264	308	346
Number of outstanding audit observations	999	1058	1403	1417
Amount involved (₹ in crore)	1890	1125	1775	1573.69

Department-wise details of IRs, audit observations pending settlement as on 30 June 2018 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 IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise, Registration, Taxation & Stamps	(a) Taxes on sales, trade, etc.	123	614	872.98
		(b) State Excise	58	240	67.37
		(c) Stamps & Registration	23	44	9.93
		(d) State Lotteries	01	01	34.80
2.	Transport	Taxes on motor vehicles	81	209	159.56
3.	Mines and Minerals	Mining receipts	20	75	173.26
4.	Environment and Forests	Forestry and Wild life	40	234	255.79
Total			346	1417	1573.69

In respect of 12 IRs out of 38 IRs issued during 2017-18, 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 (September 2018). Pendency of IRs due to non-receipt of the replies may be because the Heads of Office and Heads of the Department had 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 2017-18 including those of previous four years and their status as on 01 April 2018 are mentioned in *Table 1.10*.

Table 1.10 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
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
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

It would be seen from the above Table that number of outstanding IRs and audit observations had increased in 2017-18 over 2016-17, which shows that the departments had made little 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 the draft audit paragraphs

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 of the CAG of India.

Twenty-nine draft audit paragraphs and a Performance Audit (PA) proposed to be included in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2018, Government of Meghalaya, were forwarded to the Secretaries of the departments concerned between July 2018 and November 2018. The departments furnished the replies in respect of all twenty-nine paragraphs. The draft report for the Performance Audit was discussed with the officers of the Mining Department during the Exit Meeting. However, the Department had not yet furnished any replies (February 2019). Based on the departmental replies, seven paragraphs were dropped. The remaining twenty-two paragraphs are included with departmental replies. The Performance Audit is included in this report without the replies of the Department.

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 Comptroller and Auditor General of India in the Legislative Assembly, the Departments should initiate action on the audit paragraphs. The Government should, submit the action taken explanatory notes on audit paragraphs 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. Total 351 audit paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India (Revenue Sector), for the years ended 31 March 2009 to 2017, Government of Meghalaya were placed before the State Legislature between May 2010 and March 2018. The *suo-motu* explanatory notes from the Departments concerned were awaited in respect of 155 paragraphs which was 44 per cent of the total audit observations (June 2019).

The PAC discussed 42 selected paragraphs³ between April 2011 and November 2018 and their recommendations on 14 paragraphs were incorporated in two PAC Reports (37th and 39th Reports) for the years 2008-09 and 2009-10. However, Action Taken Notes (ATNs) had not been received (June 2019) in respect of 14 recommendations made by the PAC from the Departments concerned as mentioned in *Table 1.11*.

Table 1.11 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

1.7 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 Taxation 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 Taxation Department as on September 2018 are shown in *Table 1.12*.

³ Pertaining to the Audit Reports for the years 2008-09, 2009-10, 2013-14 and 2016-17.

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
2013-14	48	195	246.90	18	146	414.34	1	53	159.45	65	288	501.79
2014-15	65	288	501.79	17	123	93.62	0	61	248.54	82	350	346.87
2015-16	82	350	346.87	11	84	148.02	2	55	198.65	91	379	296.24
2016-17	91	379	296.24	19	203	472.40	3	39	72.92	107	543	695.72
2017-18	107	543	695.72	16	115	258.22	0	30	42.70	123	628	911.24

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

1.7.2 Recovery of accepted cases

The position of paragraphs pertaining to the Taxation Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2017-18 are mentioned in *Table 1.13*.

Table 1.13 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 (2017-18)
2012-13	20	97.81	3	3.36	-
2013-14	12	46.56	3	1.89	-
2014-15	10	55.96	4	24.08	1.72
2015-16	11	4.27	3	4.27	1.07
2016-17	16	37.21	8	9.94	0.92
Total	69	241.81	21	43.54	3.71

During the last five years, the Department accepted 21 out of the 69 audit paragraphs. Against the accepted cases involving money value of ₹43.54 crore, the Department recovered ₹3.71 crore only, 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* 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 2017-18, out of 129 auditable units, 63 units were audited. Besides this, a performance audit on “*Working of Mining Department*” was also conducted.

1.9 Results of audit - Position of local audits conducted during the year 2017-18

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 2017-18 revealed under-assessments/short/non-levy/loss of revenue amounting to ₹925.62 crore in 252 cases. During the year, the departments accepted under-assessments/short/non-levy/loss of revenue of ₹392.42 crore in 127 cases pointed out in 2017-18 and recovered ₹14.21 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 twenty-two paragraphs (selected from the audit detections made during test audit in the year 2017-18). Paragraphs from earlier years, which could not be included in the previous Audit Reports, are also included. A Performance Audit on “*Working of Mining Department*” is also included in the Report. Cumulatively, these audit observations have revenue implication of ₹961.99 crore.

The Departments have accepted audit observations involving ₹81.73 crore and recovered ₹11.94 crore⁴. These audit paragraphs including the Performance Audit on “*Working of Mining Department*” are discussed in the succeeding Chapters.

⁴ In respect of the six paragraphs of Taxation Department and one paragraph of Stamps & Registration Department.

