



Chapter IV
Revenue Sector

CHAPTER IV

REVENUE SECTOR

4.1 General

4.1.1 Trend of Revenue Receipts

The Tax and Non-tax revenue raised by the Government of Manipur during the year 2019-20, the State's share of net proceeds of Union taxes and duties and GIA received from the GoI during the year and the corresponding figures for the preceding four years are mentioned in **Table 4.1.1**.

Table 4.1.1 Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
1	Revenue raised by the State Government					
	Tax revenue	550.44	586.67	790.94	1,046.05	1,203.68
	Non-tax revenue	149.48	164.8	174.07	166.24	134.53
	Total	699.92	751.47	965.01	1,212.29	1,338.21
2	Receipts from the GoI					
	State's share of Union taxes and duties	3,142.42	3,757.12	4,154.33	4,698.59	4,045.21
	GIA	4,437.76	4,620.52	5,238.49	4,650.83	5,300.74
	Total	7,580.18	8,377.64	9,329.82	9,349.42	9,345.95
3	Total receipts of State Government (1 & 2)	8,280.10	9,129.12	10,357.83	10,561.71	10,684.16
	Percentage of 1 to 3	8	8	9	11	13

Source: Finance Accounts.

The above table indicates that during 2019-20, revenue raised by the State Government was ₹ 1,338.21 crore, being 13 per cent of its total Revenue Receipts of ₹ 10,684.16 crore. The balance receipts of ₹ 9,345.95 crore (87 per cent) during 2019-20 were from Government of India as State's share of net proceeds of Union taxes and duties and GIA.

4.1.1.1 Tax Revenue

Details of Budget of tax revenue and actual receipts of tax revenues for the period 2015-16 to 2019-20 are given in the following table.

Table 4.1.2 Details of Tax Revenue

(₹ in crore)

Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Increase (+)/ decrease (-) in 2019-20 over 2018-19 (in per cent)
	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
Taxes on sales, trade etc.	570.00	466.51	570.00	499.65	700.00	385.58	204.66	253.02	288.45	235.53	(-) 6.91
Goods and Services Tax	NA	NA	NA	NA	0.00	301.53	400.98	694.70	754.78	852.58	(+) 22.73
Motor Vehicles Tax	25.43	23.29	27.00	25.04	40.00	36.14	45.60	39.83	45.28	47.50	(+) 19.26

Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Increase (+)/ decrease (-) in 2019-20 over 2018-19 (in per cent)
	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	BEs	Actuals	
Stamps & Registration Fees	10.27	10.45	11.00	10.03	30.00	13.98	34.20	17.62	16.01	16.60	(-) 5.79
State Excise	11.96	8.78	12.00	9.32	12.00	9.37	13.68	8.18	8.79	11.60	(+) 41.81
Land Revenue	1.45	2.59	2.50	1.91	5.00	1.44	5.70	3.54	2.70	4.10	(+) 15.82
Taxes and duties on electricity	0.06	-	0.06	0.01	0.06	0.00	0.07	-	-	-	NA
Others ⁷⁷	51.98	38.82	44.64	40.73	44.81	42.89	51.08	29.16	68.53	35.57	(+) 21.98
Total	671.15	550.44	667.20	586.69	831.87	790.93	755.97	1,046.05	1,184.54	1,203.68	(+) 15.07

Source: Annual Financial Statements and Finance Accounts.

BEs: Budget Estimates.

The GST receipts at ₹ 852.58 crore were ₹ 97.80 crore more than the budgeted receipts. Departments despite being requested (October 2021) failed to furnish reasons for variation in Tax Revenue Receipts with respect to the previous year.

4.1.1.2 Non-tax Revenue

Details of budget estimates of non-tax revenue and actual realisations of the non-tax revenues during the period 2015-16 to 2019-20 are indicated in the following table.

Table 4.1.3 Details of Non-Tax Revenue

Sl. No.	Head of revenue	2015-16		2016-17		2017-18		2018-19		2019-20		Increase (+)/ decrease (-) in 2019-20 over 2018-19 (in per cent)
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Miscellaneous General Services	129.27	106.09	129.27	118.61	150.00	114.39	150.00	111.37	220.11	101.13	(-) 9.19
2	Interest receipts	38.61	27.43	38.61	19.73	40.54	19.27	42.57	18.68	20.23	6.39	(-) 65.79
3	Forestry and Wild Life	4.33	3.65	4.33	6.46	35.00	23.61	35.00	15.26	24.80	9.70	(-) 36.44
4	Major and Medium Irrigation	12.38	0.64	2.00	1.58	2.10	0.27	2.21	2.68	0.28	0.76	(-) 71.64
5	Public Works	2.11	1.26	2.11	0.90	2.22	1.87	2.33	1.62	1.96	1.23	(-) 24.07
6	Other Administrative Services	1.38	0.99	1.38	6.43	1.45	2.34	1.52	3.09	2.46	2.75	(-) 11.00
7	Police	1.20	0.72	1.20	1.38	1.26	0.91	1.32	1.42	0.96	0.81	(-) 42.96
8	Medical and Public Health	0.33	0.25	0.33	0.50	0.35	1.16	0.37	0.69	1.22	0.69	-
9	Co-operation	0.26	0.37	0.26	0.14	0.27	0.34	0.29	0.41	0.36	0.45	(+) 9.76
10	Other non-tax receipts ⁷⁸	29.55	8.06	11.72	9.07	12.31	9.91	12.93	11.01	10.40	10.62	(-) 3.54
Total		219.42	149.48	191.21	164.80	245.50	174.07	248.54	166.23	282.78	134.53	(-) 19.07

Source: Annual Financial Statements and Finance Accounts.

- In respect of Major and Medium Irrigation, Water Resources Department stated (November 2021) that decrease in revenue during 2019-20 by 71.64 per cent over

⁷⁷ Other taxes include other taxes on income and expenditure, other Taxes and Duties on Commodities and Services and Taxes on Goods and Passengers.

⁷⁸ Comprising 22 Major Heads with amounting to ₹ 10.62 crore.

the previous year 2018-19 was due to less receipt of interest on Mobilisation Advances, hire charges of machineries, sale proceeds and water tax, *etc.*

- Public Works Department stated (October 2021) that decrease in revenue during 2019-20 by 24.07 *per cent* over 2018-19 was due to less realisation.
- Others: Under ‘Others’, Fisheries Department stated that decrease in Revenue Receipts in 2019-20 over 2018-19 was due to untimely recovery of lease fees on account of covid pandemic while Minor Irrigation Department stated that decrease in revenue during 2019-20 was due to drought like situation and non-regularisation of the process of collection.
- Other departments (indicated in **Table 4.1.3**), despite being requested (October 2021), did not furnish the reasons for variations in non-tax revenue receipts with respect to the previous year.

4.1.2 Revenue and return filling trends

4.1.2.1 GST Revenue of Government of Manipur: Comparison between budget estimates and actual receipts

The comparison of budget estimates and the corresponding actual collection of Goods and Service Tax (GST) during the period from 2017-18 to 2019-20 are shown in table below:

Table 4.1.4 Revenue from GST during 2017-18, 2018-19 and 2019-20

(₹ in crore)

Year ⁷⁹	Budget Estimates (BE)	Revised Estimates (RE)	Actuals
	State GST	State GST	State GST
2017-18	-	348.68	301.53
2018-19	400.98	662.09	694.70
2019-20	754.78	861.87	852.58

Source: Departmental Records.

It could be seen from above table that the actual collection of revenue from SGST during 2017-18 and 2019-20 was short of the target as projected in the revised estimates whereas GST collection was more than the target as projected in the revised estimates during 2018-19.

4.1.2.2 Bi-monthly compensation received from Union Government

Compensation is given to the State when there is less collection of revenue from the projected figure as prescribed under Section 7 of Goods and Service (Compensation) Act, 2017.

During 2019-20, the State Government has not received any compensation under GST (Compensation) Act, 2017.

⁷⁹ GST data on Budget Estimates for the Financial year 2017-18 is not applicable as GST was implemented from July 2017.

4.1.2.3 Trends of Integrated GST apportionment to the State and its cross utilisation

Integrated GST (IGST) collected will be apportioned between the Centre and the State where the goods or services are consumed. The revenue will be apportioned to the Centre at the CGST rate, and the remaining amount will be apportioned to the consuming State.

The trends of IGST apportionment to the State and its cross utilisation are given in table below:

Table 4.1.5 Integrated Goods and Services Tax

(₹ in crore)			
IGST component	2017-18	2018-19	2019-20
IGST ⁸⁰ apportioned to the State as per Section 17 of IGST Act, 2017	28.27	49.15	71.92
IGST provisionally/ad-hoc apportioned to the State	15.00	56.51	16.60
IGST cross utilised between			
SGST ⁸¹ as IGST	(-) 0.19	(-) 3.04	(-) 2.10
IGST as SGST	(+) 182.83	(+) 414.36	(+) 561.14

Source: Departmental Records.

As can be seen from the above table, the IGST apportioned to the State has grown significantly during 2017-18 to 2019-20.

4.1.2.4 Registration under GST

Total registration under GST as on 31 March 2020 were 13,852 of which normal taxpayers were 12,575 which accounted for 90.78 per cent and composition taxpayers were 7,06 which accounted for 5.09 per cent. The category wise registrations under GST is given in table below:

Table 4.1.6 Details of GST registrations upto 31 March 2020

Category of Registrant	No. of Registrants	Percentage of total
Normal taxpayers	12, 575	90.78
Composition taxpayers	706	5.09
Tax Deductors at Source	510	3.68
Tax Collectors at Source	58	0.42
Input Service Distributors	0	0
Others (Casual, NRTP, OIDAR)	3	0.02
Total Registrants	13, 852	

Source: Departmental Records.

⁸⁰ IGST: It is a tax collected by the Central Government for an inter-State sale.

⁸¹ SGST: It is a tax collected by the State Government for an intra-State sale.

4.1.2.5 GST Return filling pattern of GSTR-1 and GSTR-3B

The trends of filling of GSTR-1⁸² and GSTR-3B⁸³ as on 31 March 2020 for the period from April 2019 to March 2020, as compiled from the summary reports shared by GSTN, is shown in the table below:

Table 4.1.7 Details of return filing (GSTR-1 and GSTR-3B) during 2019-20

Return Type	Details of Returns filed							
	GSTR-1			GSTR-3B				
Months	Due	Total filed	Per cent	Due	Total filed	per cent	filed by due date	Per cent
April 2019	10,929	2,234	20.44	10,929	7,117	65.12	4,557	41.70
May 2019	10,976	1,717	15.64	10,976	7,027	64.02	4,777	43.52
June 2019	10,987	1,655	15.06	10,987	7,001	63.72	4,795	43.64
July 2019	10,941	2,434	22.25	10,941	7,015	64.12	4,977	45.49
August 2019	10,837	1,766	16.30	10,837	7,030	64.87	5,318	49.07
September 2019	10,659	2,145	20.12	10,659	6,998	65.65	4,957	46.51
October 2019	10,496	1,785	17.01	10,496	7,003	66.72	5,247	49.99
November 2019	10,527	2,242	21.30	10,527	6,944	65.96	5,156	48.98
December 2019	10,173	3,698	36.35	10,173	6,861	67.44	5,711	56.14
January 2020	10,240	2,582	25.21	10,240	6,426	62.75	5,726	55.92
February 2020	10,379	2,056	19.81	10,379	4,653	44.83	4,530	43.65
March 2020	10,531	666	6.32	10,531	586	5.56	526	4.99

Source: Departmental Records.

The filling of GSTR-3B for April 2019 was 65.12 per cent while that of March 2020 was only 5.56 per cent. It was noticed that on an average 58.48 per cent tax payers filed their GSTR-3B returns during 2019-20. The GSTR-3B returns filed within the due date was on an average of 44.08 per cent taxpayers. GSTR-3B returns filed by the due date range between 41.70 per cent and 56.14 per cent during April 2019 to February 2020, but for March 2020 it was only 4.99 per cent. Thus, compliance needs to be improved.

4.1.2.6 Revenue earning from top 10 commodities/services

The details of the revenue earning from top 10 commodities/services during 2019-20 are given in the table below:

Table 4.1.8 Revenue from top 10 commodities/services during 2019-20

(₹ in crore)

Sl. No.	Name of commodity/service	SGST/ UTGST collections
Commodities		
1	Automobiles	78.60
2	Iron and Steel	49.13
3	Cement & Mineral Products	38.65
4	Electrical items	31.39
5	Pharmaceutical products	27.10
6	Oil products	13.28
7	Plastic and articles thereof	13.58
8	Soaps, detergents and other products	8.47
9	Paints and thereof	5.79
10	Machinery & mechanical appliances	16.21

⁸² GSTR-1: It is a sales return that is required to be filed by every GST registered person.

⁸³ GSTR-3B: It is a self-declared consolidated summary return of inward and outward supplies which is required to be filed by a registered person electronically on the GST common portal.

Sl. No.	Name of commodity/service	SGST/ UTGST collections
Services		
1	Construction Services	74.71
2	Financial services	13.49
3	Support Services	10.46
4	Transport services	2.86
5	Maintenance & repair services	5.39
6	Communication Services	23.82
7	Professional services	1.99
8	Accommodation, Food and Other Services	2.35
9	Rental services	10.22
10	Manufacturing services	0.24

Source: Departmental Records.

Against Commodities Sector, Automobiles (₹ 78.60 crore), Iron and Steel (₹ 49.13 crore) and Cement and Mineral Products (₹ 38.65 crore) were the main contributor of SGST, while under Service Sector, Construction Services (₹ 74.71 crore) and Communication Services (₹ 23.82 crore) were the main contributor of SGST.

4.1.3 Analysis of arrears of revenue

The arrears of revenue on account of Taxes/VAT and GST as on 31 March 2019 and 2020 are as shown in table below:

Table 4.1.9 Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March		Amount outstanding for more than five years as on 31 March	
		2019	2020	2019	2020
1	Taxes/ VAT	1.02	0.13	Nil	Nil
2	GST	Nil	Nil	Nil	Nil
Total		1.02	0.13	Nil	Nil

Source: Information furnished by Taxation Department, Manipur.

It can be seen from the above table that arrear of Taxes/ VAT as on 31 March 2019 stood at ₹ 1.02 crore and had decreased to ₹ 0.13 crore at the end of March 2020. Whereas, no GST was in arrear during these periods, neither Taxes/VAT nor GST was outstanding for more than five years as on 31 March 2019 and 2020.

4.2 Response of Departments/Government towards Audit

The Principal Accountant General (Audit), Manipur {PAG (Audit)} conducts audit of the Government Departments and their units to test check the transactions and to verify the maintenance of important accounts and other records as prescribed in the Rules and procedures. On conclusion of these audits, Inspection Reports (IRs) incorporating irregularities detected during the audit and not settled on the spot are issued to the heads of the offices audited with copies to the next higher authorities for taking suitable corrective actions. The heads of the offices/ Governments are required to promptly comply with the observations contained in the IRs, rectify the defects/ omissions and furnish reply to the PAG (Audit) within one month from the date of issue of IRs. Serious financial irregularities are identified for their inclusion in the Comptroller & Auditor General of India's Annual Audit Report on the Government of Manipur.

At the end of June 2020, there were 315 Inspection Reports issued up to March 2020 with 1,061 paragraphs involving ₹ 233.03 crore as outstanding audit observations. The corresponding figures for the preceding two years are also given in the table given below.

Table 4.2.1 Details of pending Inspection Reports

	June 2018	June 2019	June 2020
Number of pending IRs	275	304	315
Number of outstanding audit observations	866	1,084	1,061
Amount involved (₹ in crore)	206.38	209.84	233.03

Source: Records of O/o the PAG (Audit), Manipur.

4.2.1 Department-wise details of IRs and audit observations outstanding as on 30 June 2020 and their financial implications are mentioned in the following table.

Table 4.2.2 Department wise details of Outstanding Inspection Reports

(₹ in crore)

Name of Department	Nature of receipts	No. of outstanding		Money value involved
		IRs	Audit observations	
Finance	Taxes on sales, trade, etc.	66	263	127.45
	Passenger & Goods Tax (PGT)	0	0	0
	Other Taxes & Duties on commodities and Services (OTD)	0	0	0
	Entertainment & Luxury tax, etc.	0	0	0
Excise	State Excise	15	45	7.23
Revenue	Land revenue	126	387	32.24
Transport	Taxes on Motor Vehicles	88	281	62.55
Stamp and Registration	Stamp & Registration Fees	20	85	3.56
Total		315	1061	233.03

Source: Records of O/o the PAG (Audit), Manipur.

In respect of 13 IRs issued during 2019-20, Audit did not receive even the first reply from seven Head of Offices within the prescribed period of one month from the date of issue of the IRs. Large pendency of 315 IRs due to the non-receipt of replies/ further clarification is indicative of the fact that Head of Offices and Departments had not given due importance to audit findings and had not initiated any action to rectify the omissions and irregularities pointed out by Audit.

Government may, therefore, consider having an effective monitoring system for taking prompt remedial action on the audit findings, in interest of their own revenue.

4.2.2 Departmental Audit Committee Meetings

Government has set up Audit Committees to monitor and expedite the progress of settlement of IRs and paragraphs therein, however, Departmental Audit Committee meeting were not held during 2019-20.

In view of the large pendency of IRs, Government may ensure that Audit Committee meetings are regularly conducted on quarterly basis to expedite the clearance and settlement of outstanding IRs and paras therein.

4.2.3 Non-production of records to audit

The programme of local audit (Tax revenue/Non-tax revenue Offices) is drawn up sufficiently in advance 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 2019-20, there was one case of Transport Department where records such as TR-5 books were not made available to audit. Amount involved in the records not produced could not be ascertained.

As the records were not produced for scrutiny, Audit was unable to vouchsafe the genuineness of the underlying transactions. Details are shown in **Appendix 4.1**.

4.2.4 Response of the Departments to draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India (CAG) are forwarded to the Principal Secretary/Secretaries of the concerned Department, drawing their attention to the audit findings and requesting them to send their response within four to six weeks. The fact of non-receipt of replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Four draft paragraphs⁸⁴ were sent to the Principal Secretary, Finance Department between December 2020 to October 2021. The responses received from the Department have been incorporated in the Audit Report.

4.2.5 Follow up on Audit Reports

After the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall submit *suo moto* Explanatory Notes to the Public Accounts Committee (PAC) within three months of tabling the Report. In spite of these provisions, the Explanatory Notes on Audit Paragraphs of the Reports were being delayed inordinately. Explanatory notes in respect of two paragraphs/reviews from one Department (Transport Department) under the Revenue Sector had not been received for the Audit Reports for the years ended 31 March 2018. Audit Report for the year ended 31 March 2019 has been placed in the State Legislature on 25 March 2022. PAC discussed 44 selected paragraphs/reviews pertaining to the Audit Reports on Revenue Sector for the years 2011, 2012, 2013, 2014, 2016 and 2017⁸⁵ and its recommendations on 29 paragraphs were incorporated in their 38th, 40th, 45th, 47th, 49th, 51st and 54th Reports. However, Action taken Notes (ATNs) have not been received in respect of 24 recommendations of the PAC from the Departments concerned as mentioned in **Table 4.2.3**.

⁸⁴ Two draft paragraphs and two Special Subject Compliance Audit reports.

⁸⁵ Audit Report for the year ended 31 March 2018 is not included as paras/ reviews in respect of Revenue Sector is yet to be selected by PAC for discussion (March 2022). Audit Report for the year ended 31 March 2019 is yet to be placed in the State Legislature (March 2022).

Table 4.2.3 Position of Outstanding ATNs on PAC recommendations

Year	Name of Department	No. of ATN outstanding
2011	Transport	3
2012	Transport	1
	Taxation	4
2013	Taxation	3
	Tourism	1
	Transport	1
2014	Revenue	1
	Taxation	4
	Transport	1
2016	Revenue	1
2017	Taxation	1
	Transport	3
Total		24

Source: Records of O/o the PAG (Audit), Manipur.

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

To analyse the system of addressing issues highlighted in Inspection Reports/ Audit Reports by Departments/ Government, the action taken on Audit Paragraphs and Performance Audits included in Audit Reports of last 10 years for one Department *i.e.*, Land Revenue Department was evaluated and included in this Audit Report.

The succeeding paragraphs 4.3.1 and 4.3.2 analyse the performance of Land Revenue Department under revenue Major Head 0029. Audit findings detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2010-11 to 2019-20 were also analysed.

4.3.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2020 are shown in the table given below.

Table 4.3.1 Position of Inspection Reports

Sl. No.	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
1	2010-11	66	174	15.73	10	24	2.90	1	8	0.01	75	190	18.62
2	2011-12	75	190	18.62	12	21	2.04	7	14	1.14	80	197	19.52
3	2012-13	80	197	19.52	8	23	3.04	1	4	0.05	87	216	22.51
4	2013-14	87	216	22.51	6	28	3.07	1	6	0.02	92	238	25.56
5	2014-15	92	238	25.56	16	99	11.04	0	7	0.14	108	330	36.46
6	2015-16	108	330	36.46	9	69	55.06	1	14	2.14	116	385	89.38
7	2016-17	116	385	89.38	20	111	50.93	0	2	0.01	136	494	140.03
8	2017-18	136	494	140.30	10	44	1.52	3	39	9.93	143	499	131.89
9	2018-19	143	499	131.87	26	141	4.64	0	10	1.18	169	630	135.33
10	2019-20	169	630	135.33	13	66	24.53	0	19	0.87	182	677	158.99

Source: Records of O/o the PAG (Audit), Manipur.

Government is required to arrange *ad hoc* Committee meetings between the Department and PAG (Audit) to settle old paragraphs. As would be evident from the

above table, against 66 outstanding IRs with 174 paragraphs at the beginning of 2010-11, the number of outstanding IRs increased to 182 with 677 paragraphs at the end of 2019-20. This is indicative of the fact that adequate steps are needed to be taken up by the Department in this regard.

4.3.2 Action taken on the recommendations accepted by Departments/ Government

The following Performance Audits on Taxation Department have featured in the Audit Reports of last five years. The details of recommendations and their status are given in the following table.

Table 4.3.2 Status of Recommendations of Performance Audits

Year of Audit Report	Name of Performance Audit	No. of recommendations	Details of the recommendations	Status
2016-17	Performance Audit on System of Assessment under Value Added Tax	4	<p>The Department may consider the following:</p> <ul style="list-style-type: none"> • Establish a system of scrutiny with proper guidelines, checklist with in-built method of screening for further scrutiny; • In view of lapses noticed in the Value Added Tax regime, reorganise the tax collection structure to use all types of assessments and audits as provided in the Manipur Goods and Service Tax Act for safeguarding the interest of government revenue; • Establish monitoring system through system of control registers or Management Information System, periodic reporting, prescribed checks and review, <i>etc.</i>; and • Ensure that tax manuals are prepared for standardising the entire processes with the Goods and Service Tax regime. 	<p>During PAC discussion on 04 June 2019, Department stated that the issues highlighted and the recommendations will be incorporated properly in the GST regime.</p> <p>However, PAC has not yet publish its report/recommendations on the Performance Audit Report.</p>

Source: Records of the PAG (Audit), Manipur

4.4 Audit Planning

The audit units under various Departments are categorised into high, medium and low risk units according to their revenue position, volume of transactions, 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 revenue earnings during past five years, features of tax administration, audit coverage and its impact during past five years, *etc.*

During the year 2019-20, there were 60 auditable units, of which 16 units were planned and audited, which is 100 *per cent* of the total planned units.

4.5 Results of Audit

Position of local audit conducted during the year

Test check of the records of Taxation Department, Transport Department and Land Revenue Department conducted during the year 2019-20 showed underassessment/short levy/loss of revenue/non-realisation of outstanding revenues aggregating to ₹ 7.83 crore in 20 cases. During the course of the year, Department did not furnish any reply regarding under assessment and other deficiencies, which were pointed out in audit during 2019-20. Departments had recovered ₹ 12.86 lakh during 2019-20 pertaining to the audit findings of the previous year.

4.6 Recovery at the instance of audit

Value Added Tax (VAT) deducted at source should be deposited within seven days from the expiry of the month to the designated bank authorised by the Government by Challan through the Government Treasury concerned. Audit (August to September 2018) of State Mission Director (SMD), State Implementation Society (SIS), Rashtriya Madhyamik Shiksha Abhiyan (RMSA), Manipur, for the period from April 2016 to March 2018 revealed that VAT amounting to ₹ 27.48 lakh was deducted at source. However, there was no supporting record to prove that the VAT amount deducted at source was deposited into Government Account till date of audit (September 2018). While admitting the audit observation, Department stated (September 2021) that the outstanding VAT amount of ₹ 27.48 lakh deducted at source had been deposited.

4.7 Coverage of this Report

This Report contains two Special Subject Compliance Audits on GST refunds and Transitional Credits under GST involving financial effect of ₹ 2.66 crore which are discussed in succeeding paragraphs.

COMPLIANCE AUDIT

TAXATION DEPARTMENT

4.8 Subject Specific Compliance Audit of GST Refunds

4.8.1 Introduction

Timely refund mechanism constitutes a crucial component of tax administration, as it facilitates trade through release of blocked funds for working capital, expansion and modernisation of existing business. Due to unavailability of electronic refund module on the common Goods and Services (GST) portal, a temporary mechanism was devised and implemented by the Department of taxes, Government of Manipur vide Circulars dated 15/11/2017 and 21/12/2017 wherein the applicants were required to file the refund applications in Form GST RFD-01A on the common portal, take a print out of the same and submit it physically to the jurisdictional tax office along with all supporting documents. Further processing of those refund applications, *i.e.*, issuance of acknowledgement, issuance of deficiency memo, passing of provisional/final refund orders, payment advice, *etc.*, were being done manually.

The process was further simplified by allowing online submission of refund applications in Form GST RFD-01A, along with all supporting documents vide Circular dated 31/12/2018. However, various post submission stages of processing of the refund applications continued to be done by manual process.

The refund procedure was made fully electronic with availability of the refund module on the common portal with effect from 26/09/2019 (also called Automation of Refund Process). Accordingly, the Circulars issued earlier laying down the guidelines for manual submission and processing of refund claims have either been superseded or modified. In order to ensure uniformity in implementation of the provisions of law across field formations, several earlier Circulars⁸⁶ have been superseded vide the Master Circular dated 18/11/2019. However, the provisions of the said Circulars shall continue to apply for all refund applications filed on the common portal before 26/09/2019 and the said applications shall continue to be processed manually as were done prior to deployment of the new system.

The Department of Taxes, Government of Manipur also followed the same procedure as outlined in the Central Government circulars.

Audit of Refund cases under GST regime was conducted to assess:

- (i) The adequacy of Act, Rules, notifications, circulars, *etc.* issued in relation to grant of refund.

⁸⁶ Circular dated 15.11.2017, dated 21.12.2017, dated 15.03.2018, dated 30.05.2018 (including corrigendum dated 18.07.2019), dated 04.09.2018, dated 26.10.2018, dated 31.12.2018 and dated 28.03.2019.

- (ii) The compliance of extant provisions by the tax authorities and the efficacy of the systems in place to ensure compliance by taxpayers.
- (iii) Whether effective internal control mechanism exists to check the performance of the departmental officials in disposing the refund applications.

A total of 24 refund cases involving refund claim amount of ₹ 2.30 crore was processed in the office of the Commissioner of Taxes, Government of Manipur from July 2017 to June 2020. The following audit observations were noticed:

4.8.1.1 Acknowledgment not issued within time

Rule 89 (1) of the MGST Rules, 2017 on refund applications states that any person claiming refund of any tax, interest, penalty, fees or any other amount paid by him, other than refund of integrated tax paid on goods exported out of India may file an application electronically in FORM GST RFD-01 through the common portal. Rule 90 (1) regarding issue of acknowledgement states that where the application relates to a claim for refund from the electronic cash ledger, an acknowledgement in FORM GST RFD-02 shall be made available to the applicant through the common portal electronically. Rule 90 (2) further states that the application shall be forwarded to the proper officer who shall, within a period of fifteen days of filing of the said application, scrutinise the application for its completeness and where the application is found to be complete, an acknowledgement in FORM GST RFD-02 shall be made available to the applicant through the common portal electronically, clearly indicating the date of filing of the claim for refund.

Audit noticed that in 5 out of 23 Refund Cases (*Deviation Rate: 21.74 per cent*) there were delays in issuance of acknowledgement to the taxpayer with delay ranging from 44 to 354 days (*Appendix 4.2*). All the 5 Refund Cases related to claims for refund from the electronic cash ledger. Reasons for the delays in issuance of acknowledgement were not available on record.

The matter was referred to the Department (April 2021). In reply, the Department stated (June 2021) that the Competent Authority had decided that the applications pertaining to refund claims shall be filed and processed manually. The Department stated that as per circular⁸⁷ issued by the Competent Authority in November 2017, refund process (for refund of unutilised input tax credit on inputs or input services used in making such zero-rated supplies) could not be initiated until the applicant submitted the ARN and Form RFD-01A along with necessary documents to the jurisdiction officer manually. In case of Manipur, the applicants had not submitted the documents manually in time. Hence, the acknowledgement could not be issued within time as per provision under Rule 89(1) of the MGST Rules, 2017.

Audit further noticed that w.e.f. 31 December 2018, the Competent Authority had also directed that all documents to be submitted with the claim for refund in form GST RFD-01A, shall be uploaded by the taxpayers on the common portal at the time of filing of

⁸⁷ Circular No. 17/17/2017 – GST dated 15/11/2017 issued by CBIC and Circular No. 9/2017 - GST–GST dated 15/11/2017 issued by Department of Taxes, Government of Manipur.

the refund application while physical submission was optional⁸⁸. Thus, the reply of the Department is not acceptable as manual submission was not required in respect of these cases.

4.8.1.2 Rejection of refund application without opportunity of being heard.

Rule 92 (2) of the MGST Rules, 2017 states that where the proper officer or the Commissioner is of the opinion that the amount of refund is liable to be withheld, he shall pass an order in Part B of FORM GST RFD-07 informing him the reasons for withholding of such refund. Rule 92 (3) of the MGST Rules, 2017 further states that where the proper officer is satisfied that the whole or any part of the amount claimed as refund is not admissible or is not payable to the applicant, he shall issue a notice in FORM GST RFD-08 to the applicant, requiring him to furnish a reply in FORM GST RFD-09 within a period of fifteen days of the receipt of such notice and after considering the reply, make an order in FORM GST RFD-06 sanctioning the amount of refund in whole or part, or rejecting the said refund claim and the said order shall be made available to the applicant electronically, and the provisions of Rule 92 (1) shall, *mutatis mutandis*, apply to the extent refund is allowed, provided that no application for refund shall be rejected without giving the applicant an opportunity of being heard.

Audit noticed that four out of 24 Refund Cases, amounting to ₹ 99.89 lakh, were rejected (**Appendix 4.3**). It was observed that although the grounds for rejection were valid, the applications were rejected without offering the applicants an opportunity to represent his/her case in violation of Rule 92 *ibid*. Reasons for rejecting the refund cases without offering the applicants an opportunity of being heard were not available on record.

The matter was referred to the Department (February 2021). The Department provided their comments (June 2021) which are tabulated in table below:

Table 4.8.1: Details of refund application that were rejected without opportunity of being heard

Sl. No.	Name, ARN No. & Date	Amount (in ₹)	Reason for rejection provided by the Department (June 2021)	Audit comment
1	MANIPUR STATE POWER COMPANY LTD. (AA140619000051V Dated 04-06-2019)	95,55,636	Deficiency Memo issued under sub-rule 2, 3, 4 of rule 89 of the Manipur GST Rules, 2017.	No record of deficiency memo issued to the tax payer was available on record. Moreover, the Department did not adhere to Rule 92(3) of the MGST Rules, 2017.
2	NDS CONSTRUCTION (AA140518000196J dated 09-05-2018)	3,11,455	Necessary documents could not be produced.	The refund application was rejected without offering the applicant an opportunity to represent his/her case.
3	PRASHANTA CHOWDHURY (AA141217000163Z dated 05-12-2017)	17,000	Application was not rejected. Refund was sanctioned but entire amount was under CGST. Hence, forwarding	The refund application was processed without offering the applicant an opportunity to represent his/her case. Although the same refund

⁸⁸ Circular No. 79/53/2018-GST dated 31/12/2018 issued by CBEC and Circular No. 9/2017 - GST-GST dated 15/11/2017 issued by Department of Taxes, Government of Manipur.

Sl. No.	Name, ARN No. & Date	Amount (in ₹)	Reason for rejection provided by the Department (June 2021)	Audit comment
			letter was written to CGST, Imphal.	case was processed later on with another ARN No. AA140519000823G dated 27/05/2019, due procedure was not followed by the Department while rejecting the previous refund application.
4	BIRLA SINGH KEISAM (AA141217000580V dated 20/12/2017)	1,04,788	Application was not rejected. Refund was sanctioned but entire amount was under IGST. Hence, forwarding letter was written to CGST, Imphal.	The refund application was rejected without offering the applicant an opportunity to represent his/her case. Although the same refund case was processed later on with another ARN No. AA140519000172R dated 07/05/2019, due procedure was not followed by the Department while rejecting the previous refund application.
	Total	99,88,879		

Thus, it is observed that in all the above four cases, the refund applications were rejected without providing an opportunity of being heard as envisioned in Rule 92 (3) of the MGST Rules, 2017.

4.8.1.3 Abnormal delay in communicating refund orders to counterpart tax authority

As per circulars⁸⁹ issued by Department of Taxes, Government of Manipur (December 2017), refund order issued either by the central tax authority or a state tax/UT tax authority shall be communicated to the concerned counterpart tax authority within seven working days for the purpose of payment of relevant sanctioned amount of tax or cess as the case may be. It was also reiterated therein to ensure adherence to timeline specified under Section 54(7) of MGST Act, 2017 and Rule 91(2) of the MGST Rules, 2017 for sanction of refund orders.

Audit observed that out of 18 refund orders out of 23 transmitted between 1 July 2017 to 26 September 2019 by the Commissioner of Taxes, Manipur to Central GST Commissionerate, Imphal, eight refund orders (*Deviation Rate: 44.44 per cent*) involving ₹ 8.06 lakh were forwarded with a delay ranging from two to 195 days (*Appendix 4.4*).

Thus, Department did not adhere to the timeline prescribed in the Board's circular. Reasons for non-adherence to the prescribed timeline were not available on record.

The matter was referred to the Department (February 2021). In their reply, the Department stated (June 2021) that the refund process was delayed due to the bank

⁸⁹ Circular No. 13/2017 - GST- GST dated 21/12/2017 issued by Department of Taxes, Government of Manipur.

account details of applicants being sought from the applicants along with Form RFD-06.

The reply is not tenable as the bank account details are required to be submitted at the time of registration.

Recommendations

- *The Department should put in place a mechanism to ensure that the extant provisions of the MGST Act, 2017 are complied with; and*
- *The Department needs to put in place a monitoring mechanism to track refund applications so as to ensure timely disposal of refund claims as the delays accrue interest liability.*

4.9 Subject Specific Compliance Audit on Transitional Credits under GST

4.9.1 Introduction

Goods and Services Tax (GST) came into force from 1 July 2017. It subsumed various existing indirect taxes such as Value Added Tax (VAT), Excise duties, Service Tax, etc. To ensure the seamless flow of input tax from the existing laws to the GST regime, a transitional arrangement for input tax was included in the Manipur GST Act, 2017 to provide for the entitlement and manner of claiming input tax in respect of appropriate taxes or duties paid under the existing laws.

4.9.2 Audit scope, objectives and sample

The scope of audit included the Transitional Credit claims of taxpayers under the jurisdiction of the State who applied for carrying forward the Input Tax Credit (ITC) earned under the erstwhile laws to the GST regime.

Audit was conducted to assess the mechanism envisaged by the Department for selection and verification of transitional credit claims (Systemic Issues) and validity of the transitional credits carried over by the assessee into GST regime (Compliance Issues).

Audit sample consisted of all transitional credit claims amounting to ₹ 6.13 lakh of seven taxpayers under the State jurisdiction.

4.9.3 Audit Observations

4.9.3.1 Systemic issues

Para 12 of the departmental guidance note issued⁹⁰ by the Central Board of Indirect Taxes and Customs (CBIC)⁹¹ for transitional credit verification specifies that the Central GST officers shall have the jurisdiction for verification of CGST component of the transitional credit, irrespective of the jurisdiction of the taxpayer and the

⁹⁰ 14th March 2018.

⁹¹ The State Tax Department (STD) has not issued any orders/notifications regarding TC verification.

verification process can only be done by the tax authority which had legal jurisdiction under the erstwhile law and also has the requisite past records of the taxpayers.

Audit observed (August 2021) that there was no such guidance note or directives for conduct of verification by the State Tax Department.

(A) Verification mechanism not envisaged by the Department

The verification mechanism was not envisaged as evident from absence of issuance of a guidance note, order/notification for selection of cases, and directives for verification of the SGST component of the transitional credit claims and failure to generate a list of those GST taxpayers in Back office⁹² module resulted in lack of information on those who had applied for transitional credits through TRAN1 FORM.

(B) Intimation not sent to Central Tax Office

The Department did not send intimation to the Central tax office for verification of State GST component of four taxpayers under the jurisdiction of the central GST Commissionerate, Manipur.

As such, the Department did not verify the SGST component of the transitional credit claims of taxpayers under the State jurisdiction amounting to ₹ 0.52 lakh and the SGST component of the transitional credit claims amounting to ₹15.15 lakh under the central jurisdiction⁹³.

The matter was referred to the Department (August 2021). During the Exit Conference (September 2021), the Department stated that notice had been served to the taxpayer and the taxpayer's reply was awaited (February 2022). Further, it was assured that if found in-admissible on verification, the transitional credit amount would be recovered along with any applicable interest. However, further action taken by the Department is awaited (February 2022).

4.9.3.2 Irregular transitional credit claims

As per Section 140 (1) of the Manipur GST Act, 2017, a registered person shall be entitled to take the amount of VAT carried forward in the return relating to the period ending with the day immediately preceding the appointed day⁹⁴, furnished by him under the existing subject to the condition that the registered person should have filed all the returns under the existing law for the period of six month immediately preceding the appointed date. Further, as per Section 17 (4) of the Manipur VAT Act, 2005, Input tax credit shall be allowed for purchase of goods made within the State from a registered taxpayer.

Audit observed (August 2021) that one taxpayer⁹⁵ had applied for transitional credit amounting to ₹ 1.27 lakh, which was credited on 25/12/2017. Audit noticed that the

⁹² Backend software used by the Department to access the GSTN data.

⁹³ There were credit claims by four taxpayers under the Central jurisdiction. They were not included in the sample.

⁹⁴ 01/07/2017.

⁹⁵ M/S T & T Projects Ltd. (GSTIN: 14AACCT8998H1ZR).

taxpayer had availed an inadmissible claim of ₹ 0.15 lakh being SGST component arising from VAT paid for purchase of items from an unregistered firm⁹⁶. The firm had also claimed CGST credit of ₹1.12 lakh for the Central Excise Duties paid on stock as for purchase from a Guwahati based firm. However, VAT returns of the firm showed nil outside purchase. Hence, claim of stock holding is not acceptable.

Further, one taxpayer⁹⁷ had availed transitional credit claim of ₹ 0.36 lakh without filing the requisite VAT returns.

The matter was referred to the Department (August 2021).

During the Exit Conference (September 2021), the Department stated that the taxpayers' replies were awaited (February, 2022) and if returns were not produced, the transitional credit amount will be recovered along with any applicable interest.

⁹⁶ M/s Sani Steels.

⁹⁷ M/S V.V. Enterprises (GSTIN: 14ARXPD0984G1ZK).