

CHAPTER-IV

REVENUE RECEIPTS

4.1. Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by the Government of Manipur during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

		(₹ in crore)				
		2005-06	2006-07	2007-08	2008-09	2009-10
I.	Revenue raised by the State Government					
	• Tax revenue	95.00	121.56	147.45	170.06	196.04
	• Non-tax revenue	76.46	181.04	164.71	253.46	239.74
	Total:	171.46	302.60	312.16	423.52	435.78
II.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes	342.09	436.33	550.40	580.81	597.56 ¹
	• Grants-in-aid	1,895.40	2,123.80	2,645.71	2868.28	2839.79
	Total:	2,237.49	2,560.13	3,196.11	3449.09	3437.35
III.	Total receipts of State Government (I+II)	2,408.95	2,862.73	3,508.27	3872.61	3873.13
IV.	Percentage of I to III	7	11	9	11	11

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 435.78 crore) was eleven *per cent* of the total revenue receipts same as in the preceding year. The balance eighty nine *per cent* of receipts during 2009-10 was from the Government of India.

¹ For details refer "tax revenue" of statement 11, detailed account of revenue by minor heads of the Finance Account of the Government of Manipur, 2009-10. The amount under the minor head 901 - share of net proceeds assigned to the state booked under the major heads 0020 - Corporation tax, 0028-other taxes on income and expenditure, 0032 - taxes on wealth, 0037 - Union excise duty, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services under 'A-tax revenue' have been excluded from the revenue raised by the state and included in the state's share of divisible Union taxes in this statement.

4.1.2 The following table presents the details of tax revenue raised during the period 2005-06 to 2009-10:

							(₹ in crore)
Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) or decrease (-) in 2009-10 over 2008-09
1.	Sales tax/VAT	71.17	96.64	120.76	141.38	163.28	(+) 15.49
2.	State excise	3.26	3.62	3.75	3.91	4.70	(+) 20.21
3.	Stamps and registration fees	2.81	2.83	2.93	3.18	4.26	(+) 33.96
4.	Taxes and duties on electricity	0.27	0.19	- ²	0.39	0.01	(-) 97.44
5.	Taxes on vehicles	3.34	3.19	3.57	4.03	4.35	(+) 7.94
6.	Taxes on goods and passengers	0.68	0.60	0.76	0.80	0.81	(+) 1.25
7.	Other taxes on income and expenditure	11.99	13.30	14.73	15.46	17.63	(+) 14.04
8.	Other taxes and duties on commodities and services	0.16	0.18	0.20	0.13	0.19	(+) 46.15
9.	Land revenue	1.32	1.01	0.75	0.78	0.81	(+) 3.85
Total:		95.00	121.56	147.45	170.06	196.04	(+) 15.28

The following reasons for variations were reported by the concerned Departments:

Taxes on vehicles: The Department stated that strike by Government employees disturbed revenue collection.

Taxes on goods and passengers: The Department stated that strike by Government employees disturbed revenue collection.

Taxes and duties on electricity: The Department stated that the decrease in revenue collection was due to non-recovery of Manipur Tax from NHPC, Loktak.

The other Departments did not inform (December 2010) the reasons for variation, despite being requested (June 2010 & November 2010).

² ₹ 9,000 only.

4.1.3 The following table presents the details of the non-tax revenue raised during the period 2005-06 to 2009-10.

(₹ in crore)							
Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase(+)/decrease (-) in 2009-10 over 2008-09
1.	Interest receipts	6.14	35.05	27.61	39.99	32.73	(-) 18.16
2.	Housing	1.11	0.68	1.72	1.30	0.71	(-) 45.39
3.	Water supply and sanitation	1.69	1.39	1.58	6.89	9.48	(+) 37.59
4.	Forestry and wild life	1.49	1.52	1.45	1.02	2.25	(+) 120.59
5.	Education, Sports, Art and Culture	0.97	0.94	0.90	0.91	1.21	(+) 32.97
6.	Miscellaneous general services	6.62	82.46 ³	54.24 ⁴	92.77 ⁵	61.47	(-) 33.74
7.	Power	49.87	40.24	62.29	88.28	104.07	(+) 17.89
8.	Medium irrigation	1.97	7.85	5.26	8.00	7.00	(-) 12.50
9.	Medical and public health	0.29	0.24	0.25	0.52	0.12	(-) 76.92
10.	Co-operation	0.14	0.12	0.12	0.16	0.16	0
11.	Public works	3.09	7.83	6.14	7.96	17.65	(+) 121.73
12.	Police	0.64	0.57	0.42	3.36	0.94	(-) 72.02
13.	Other administrative services	0.70	0.63	1.07	0.59	0.38	(-) 35.59
14.	Crop husbandry	0.07	0.30	0.10	0.07	0.25	(+) 257.14
15.	Others	1.67	1.22	1.56	1.64	1.32	(-) 19.51
Total		76.46	181.04	164.71	253.46	239.74	(-) 5.41

The following reasons for variations were reported by the concerned Departments:

Medium irrigation: Department stated there was short collection of interest from the mobilisation and machinery advance.

Power: The Department stated that the increase in revenue was due to collection of outstanding dues from consumers.

The other Departments did not inform (December 2010) the reasons for variation, despite being requested (June 2010 & November 2010).

4.2 Response of the Departments/Government towards audit

Transactions and maintenance of important accounts and other records of the Departments are test checked and Inspection Report containing audit findings is issued to the head of the office so audited for comments and/or compliance. Audit findings of serious nature are processed into draft paragraph and forwarded to the administrative head of the concerned Department through demi-official letter drawing their attention to the audit findings with a request

³ Includes debt relief of ₹ 75.08 crore given by Government of India on repayment of consolidated loan.

⁴ Includes debt relief of ₹ 37.54 crore given by Government of India on repayment of consolidated loan.

⁵ Includes debt relief of ₹ 37.54 crore given by Government of India on repayment of consolidated loan.

to furnish their response within six weeks. The response of the Departments/Government towards audit is discussed below.

4.2.1 Failure of senior officials to enforce accountability and protect the interest of the State Government

The Accountant General (Audit), Manipur (AG) 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 the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2009 disclosed that 1231 paragraphs involving ₹ 894.80 crore relating to 401 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years.

	June 2008	June 2009	June 2010
Number of outstanding IRs	418	360	401
Number of outstanding audit observations	1,277	1,104	1231
Amount involved (₹ in crore)	596.12	678.97	894.8

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below:

Sl. No.	Name of Department	Nature of receipts	No. of outstanding IRs	No. of outstanding audit observations	Money value involved (₹ in crore)
1	Excise	State excise	15	37	4.65
2	Finance	Taxes/VAT on sales, trade etc	44	224	15.19
3		Miscellaneous general services/ Lottery	4	25	19.37
4	Fishery	Fisheries	16	41	0.41
5	Forest & Environment	Forest & Wild Life	52	112	4.57
6	Health & Family Welfare	Medical and public health	4	9	0.25
7	Power	Taxes and duties on electricity	114	353	811.63
8	Public Health Engineering Department	Water Supply & Sanitation	31	74	16.58
9	Revenue	Land Revenue	68	185	17.04
10		Stamps and registration fees	3	7	0.11
11	Transport	Taxes on vehicles/ Taxes on goods and passengers	50	164	5.00
Total:			401	1231	894.8

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 288 IRs issued upto December 2009. This large pendency of the IRs due to non-receipt

of the replies is indicative of the fact that the heads of offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

It is recommended that the Government take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.

4.2.2 Departmental audit committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental audit committees are constituted by the Government. These committees are chaired by the secretaries of the concerned administrative Department and attended by the concerned officers of the State Government and officers of AG. The audit committees need to meet regularly in order to expedite clearance of the outstanding audit observations. At the instance of AG, the State Level Audit Committee meeting, attended by the concerned Principal Secretaries and Commissioners was convened on September 28, 2009. In spite of this, no audit committee meetings in respect of revenue auditee units were held during the year 2009-10.

The Government may ensure holding of frequent meetings of these committees for ensuring effective action on the audit observations leading to their settlement.

4.2.3 Non-production of records to Audit for scrutiny

The program of local audit of tax/receipts offices are drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2009-10, the following records/documents were, however not produced to audit for scrutiny.

Sl. No.	Department	Office	Particulars of records not produced
1	Power	Executive Engineer, Tamenglong	23 Nos of TR-5 books
2	Power	Executive Engineer, Imphal Electrical Division - III	24 Nos of Ledger Books
3	District Administration	Sub – Divisional Officer, Moirang	5 Nos of Receipt Books and list of unauthorized occupants of Govt. land.

Audit was thus unable to ascertain the revenue realised against these records.

4.2.4 Response of the Departments to the draft audit paragraphs

Ten draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2010 were forwarded to the Secretaries/Commissioners of the respective Departments in

July 2010 and September 2010 through demi-official letters. The Departments/administrative Secretaries/Commissioners did not furnish replies (December 2010) in respect of eight draft paragraphs. The replies in respect of two draft paragraphs was received and reflected in the report.

4.2.5 Follow up on Audit Reports – summarised position

As per recommendations made by the High Powered Committee (HPC) which were also accepted by the State Government in October 1993, *suo moto* explanatory notes on corrective/remedial measures taken on all paragraphs included in Audit Reports are required to be submitted by the Departments duly vetted by the Accountant General to Public Accounts Committee (PAC) within three months from the date of placing of Audit Reports in the Legislature.

However, as of November 2010 *suo moto* explanatory notes pertaining to 68 paragraphs/reviews for the Audit reports for the years 1999-2009 were not received within the stipulated period of three months either from the Departments or through the Manipur Legislative Assembly Secretariat.

4.2.6 Compliance with the earlier Audit Reports

In the Audit Reports 2004-05 to 2008-09 cases of under assessments, evasion, non/short levy of taxes/penalty, loss of revenue, failure to raise demands *etc.* involving ₹ 17.01 crore were reported. As of March 2010, the Departments concerned have accepted observations of ₹ 6.16 crore and recovered ₹ 0.14 crore. Audit Report wise details of cases accepted and recovered are mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2004-05	0.63	0.25	0.00
2005-06	0.99	0.13	0.02
2006-07	1.87	1.01	0.02
2007-08	6.75	0.96	0.04
2008-09	6.77	3.81	0.06
Total:	17.01	6.16	0.14

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

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last 9 years in respect of one Department is evaluated and included in each Audit Report.

The succeeding paragraphs 4.3.1 to 4.3.2.2 discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted during the last 9 years and also the cases included in the Audit Reports for the years 2001-02 to 2008-09.

4.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last 9 years, paragraphs included in these reports and their status as on 30 June 2010 are tabulated below:

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
01-02	48	239	9.60	5	32	1.40	0	2	0	53	269	11.00
02-03	53	269	11.00	0	0	0	0	3	0.87	53	266	10.13
03-04	53	266	10.13	8	21	1.18	22	77	3.64	39	210	7.67
04-05	39	210	7.67	0	0	0	0	8	1.32	39	202	6.35
05-06	39	202	6.35	5	13	5.12	0	4	0.44	44	211	11.03
06-07	44	211	11.03	0	0	0	0	0	0	44	211	11.03
07-08	44	211	11.03	4	22	1.22	0	0	0	48	233	12.25
08-09	48	233	12.25	5	23	9.73	0	4	0.27	53	252	21.71
09-10	53	252	21.71	3	15	2.12	12	43	8.64	44	224	15.19

The Department was sent periodic reminders to furnish replies to the outstanding audit observations.

4.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

4.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years and those accepted by the Department and the amount recovered are mentioned in the following table:

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs	No. of paragraphs accepted	Money value of accepted paragraphs	₹ in crore)	
					Amount recovered during the year	Cumulative position of recovery of accepted cases
1999-00	3	0.41	1	0.12	0.00	0.00
2000-01	7	1.30	5	0.92	0.79	0.79
2001-02	4	0.26	2	0.16	0.00	0.79
2002-03	7	0.72	2	0.51	0.03	0.82
2003-04	10	1.82	10	1.82	0.16	0.98
2004-05	7	0.63	6	0.25	0.00	0.98
2005-06	8	0.99	3	0.13	0.02	1.00
2006-07	7	1.87	3	1.01	0.02	1.02
2007-08	8	6.75	4	0.96	0.04	1.06
2008-09	7	6.77	3	3.81	0.06	1.12
Total:	68	21.52	39	9.69	1.12	

From the above table it is seen that the Departments had accepted 57 per cent of the paras. In monetary terms, the paras accepted was 45 per cent. However, recovery against accepted paras is very poor. Against ₹ 9.69 crore accepted by the Departments, recovery was only ₹ 1.12 crore, which is a mere 12 per cent. As can be seen, recovery in three of the previous ten year was NIL.

The Department needs to evolve a strong mechanism to monitor and ensure recovery of accepted cases.

4.3.2.2 Action taken on the recommendations accepted by the Departments / Government

The draft performance reviews conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference and the Department's/Government's views are included while finalizing the reviews for the Audit Reports.

The following paragraphs discuss the issues highlighted in the reviews on the Taxation Department featured in the last 10 Audit Reports including the recommendations and action taken by the Department on the recommendations accepted by it as well as the Government.

Year of AR	Name of the review	Number of recommendations	Details of the recommendations accepted	Status
2003-04	Review on Sales Tax including Internal Control System prevalent in the Department	5	Department's reply not received.	The matter was reported to Government in August 2004; their replies were awaited (January 2005).
2008-09	Transition from Sales Tax to Value Added Tax (VAT) System	7	-do-	The audit findings and recommendations were discussed with the representatives of the Government and the officers of the Department in the exit conference (July 2009). Further comments have not been furnished thereafter.

The draft reviews were forwarded to the Department and the audit findings and recommendations were discussed with the representatives of the Government and officers of the Department during the exit conference. Compliance to audit observations and recommendations has not been intimated. The Department needs to monitor and ensure that audit recommendations are taken to their logical conclusion.

4.4 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 5 years, features of the tax administration, audit coverage and its impact during past 5 years *etc.*

During the year 2009-10, the audit universe comprised of 72 auditable units of which 23 units were planned and 19 units audited during the year 2009-10, which is 26 per cent of the total auditable units. The details are shown below:

Sl. No.	List of units planned for audit	Remark
1	EE, Imphal Electrical Division-I	Audited
2	EE Imphal Electrical Division-II	Audited
3	EE Imphal Electrical Division-III	Audited
4	EE Senapati Electrical Division	Audited
5	EE Imphal Maintenance Division	Audited
6	EE Ukhrlul Electrical Division	Audited
7	EE Tamenglong Electrical Division	Audited
8	EE Chandel PHE Division	Audited
9	Principal Chief Conservator of Forest	Audited
10	Divisional Forest Officer, Churachandpur	Audited
11	Divisional Forest Officer, Kangpokpi	Audited
12	Director, Transport	Audited
13	District Transport Officer, Imphal West	Audited
14	District Transport Officer, Imphal East	Audited
15	Sub-Divisional Officer, Bishnupur	Audited
16	Sub-Divisional Officer, Moirang	Audited
17	Sub-Divisional Officer, Lamshang	Audited
18	Sub-Divisional Officer, Lamphel	Audited
19	Commissioner of Taxes	Audited
20	EE Rural Electrification Division-I	Not covered
21	EE Churachandpur PHE Division	Not covered
22	Superintendent of Taxes, Moreh	Not covered
23	Superintendent of Taxes, Churachandpur	Not covered

Performance reviews was not taken during 2009-10.

4.5 Results of audit

4.5.1 Position of local audit conducted during the year

Test-check of the records of 19 units of electricity receipts, motor vehicles, forest and other Departmental offices conducted during the year 2009-10 revealed underassessment/short levy/loss of revenue/non realisation of outstanding revenue *etc.* aggregating ₹ 102.58 crore in 67 cases.

4.5.2 This Report

This report contains seven paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) relating to non levy of penalty/interest, non-recovery of tax, evasion of tax and penalty thereof, under assessment of tax, involving financial effect of ₹ 5.73 crore. The Departments / Government have accepted audit observations involving ₹ 3.01 crore out of which ₹ 0.25 lakh has been recovered. The replies in the remaining cases have not been received (December 2010). These are discussed in succeeding paragraphs 4.6 to 4.12.

AUDIT OF TRANSACTIONS (REVENUE)

REVENUE DEPARTMENT

4.6 Non-remittance of revenue

Land revenue amounting to ₹ 6.34 lakh was not deposited into Government account.

As per Rule 7(1) of Central Treasury Rules, all the moneys received by or tendered to Government officers on account of the revenues of the Government shall, without undue delay be paid in full into treasury and shall be included in the accounts of the Government and such moneys received shall not be appropriated to meet Departmental expenditure, nor otherwise kept apart from the accounts of the Government.

During test check (April 2006 and July 2009) of the receipts and refunds accounts of the Sub-Divisional Officer (SDO), Bishnupur, it was noticed that land revenue amounting to ₹ 6.34 lakh collected by *Zilladars* during the period from September 2005 to July 2009 was deposited with the Cashier against TR-5 during the period from March 2006 to July 2009. The details are given in **Appendix-4.1**. Scrutiny of cash book and other related records revealed that the land revenue so collected was not remitted to Government account till the date of audit (July 2009). The year wise position of unremitted land revenue is as below.

Year	Amount (in ₹)
2006-07	72,284.33
2007-08	1,90,030.25
2008-09	2,33,947.04
2009-10 (Up to July 2009)	1,37,383.27
Total:	6,33,644.89

On this being pointed out during audit, the SDO assured that immediate action would be taken to recover the revenue collected and deposit the same into Government account. Though the matter was pointed out to the concerned authorities in November 2006 and September 2009, the information of the action taken in this regard has not been received (July 2010).

The matter was reported to the Department/Government (July 2010). Their reply is awaited (December 2010).

The lapses stated above have been going on for four years with the quantum of un-deposited revenue increasing with each passing year. This is indicative of total failure of internal control thereby leaving Government revenue vulnerable to misappropriating and fraud. Collection of revenue and their subsequent remittance into Government account needs to be closely monitored. To stem the tide, tough measures need to be enforced, even to the extent of fixing responsibility and taking appropriate Departmental action for the gross lapse.

TAXATION DEPARTMENT

4.7 Under assessment of tax

Application of incorrect rate of tax resulted in under assessment of Tax amounting to ₹ 9.80 lakh

Under Section 39 (1) (c) of the Manipur Value Added Tax Act 2004, where after a dealer is assessed under Section 34 for any part of the year, the Commissioner of Taxes has reason to believe that the whole or part of the turnover of the dealer in respect of any period has been assessed at a rate lower than the rate of which it is assessable, the Commissioner may, after service of notice and giving the dealer reasonable opportunity of being heard, proceed to assess to the best of his judgment, the amount of tax due from the dealer in respect of such turnover.

During test check (April and May 2009) of the assessment records of the Commissioner of Taxes, Manipur, it was noticed that during the quarters ending from June 2007 to December 2008, one dealer⁶ made purchases of different goods taxable at 4 *per cent* and 12.5 *per cent* worth ₹ 443.79 lakh from outside the State. Scrutiny of the assessment records revealed that the dealer's purchase was inclusive of detergent powder (taxable at 12.5 *per cent*) valued at ₹ 334.19 lakh and hence, the value of goods purchased and taxable at 4 *per cent* worked out at ₹ 109.60 lakh (₹ 443.79 lakh-₹ 334.19 lakh). Details are given in **Appendix-4.2**. The AA, however, while finalising (July 2007 to January 2009) the assessments for the said quarters under Section 34(3) had wrongly accounted for the turnover aggregating to ₹ 224.84 lakh as taxable at 4 *per cent* instead of only ₹ 109.60 lakh. Thus, failure of the AA to assess the turnover amounting to ₹ 115.24 lakh at 12.5 *per cent* resulted in under assessment of tax of ₹ 9.80 lakh.

The matter was intimated to the Department and the Government during February 2010. Their reply is awaited (December 2010).

4.8 Unauthorised imports and non-levy of penalty

Penalty leviable amounting to ₹ 2.90 crore against movement of goods without mandatory declaration Form/road permit remained unlevied.

Section 66 (2) (a) of MVAT Act, 2004 read with Rule 42 (ii) of the MVAT Rules, 2005 requires that in case of import of taxable goods into Manipur, the owner or the driver or person in charge of the vehicle or carrier of goods in movement shall carry the records of the goods including challans, bills of sale or dispatch memos and prescribed declaration in Form 27 or way bill duly filled in and signed by the consignor of the goods carried. Under Section 66(5)

⁶ M/S Ranjit Enterprises-TIN-14310105155

MVAT Act, 2004, possession or movement of goods in violation of these provisions attracts a penalty equal to the amount of five times of the tax, leviable on such goods, or twenty *per cent* of the value of goods, whichever is higher.

The Government of Manipur abolished (March 2006) the taxation check gate along NH 39 at Kangpokpi–camp Sekmai (Check Gate) with a directive given to the Taxation Department to monitor the movement of goods from the Headquarters, Imphal.

Scrutiny of the records (July 2010) maintained by the Assistant Commissioner of Taxes, Manipur, Zone I, revealed that a dealer⁷ of cigarette and beedi neither applied for issue of the prescribed statutory Form nor did the Tax Authority issue such Form ever since the dealer's date of registration (April 2008) till date of audit. However, it was found that the dealer had imported goods valued at ₹ 4.65 crore into the State during the quarter ending from June 2008 to June 2009 through Challans only without any Way Bill or the prescribed statutory Form. The movement/transport of the entire goods along NH 39 was managed by the dealer himself and no transport agency was engaged. The amount of VAT leviable at the rate of 12.5 *per cent* on the value of goods imported worked out to ₹ 58.08 lakh. Details are as shown below.

(Amount in ₹)

Sl. No.	Quarter Ending	Value of taxable goods imported by the dealer	Tax leviable @12.5 <i>per cent</i>
1	June 2008	1,10,07,570	13,75,946
2	September 2008	63,57,085	7,94,636
3	December 2008	99,92,148	12,49,019
4	March 2009	1,08,36,910	13,54,614
5	June 2009	82,68,477	10,33,560
Total:		4,64,62,190	58,07,775

The dealer did not report the details of goods imported before the consignments were delivered in his favour. Since movement of goods along the NH 39 was not monitored after abolition of the Check Gate, the details of goods imported by the dealer should have been insisted upon. As per the provisions, penalty of ₹ 2.90 crore⁸ was leviable, but the same was not levied by the Department and the dealer should have been penalised.

Thus, the Department had not taken care to enforce the statutory provisions regarding statutory declarations for movement and possession of goods. There could be many more such dealers who have imported goods across the State without declarations to the Department and hence the onus lies on Department to check such imports without valid declarations/authorisation.

The matter was referred to the Government and the Department (August 2010).

⁷(trade name) M/s Mantu Biri Factory Pvt. Ltd. (TIN-14110275152)

⁸ (i) 20 *per cent* of value of goods : ₹ 92,92,438

(ii) 5 times of the tax leviable: ₹ 2,90,38,875

5 times of the tax is higher and hence penalty leviable is ₹ 2,90,38,875

While accepting audit observation, the Department stated (October 2010) that show cause notice has been issued to the dealer with directive to furnish reply on October 22, 2010. The dealer also accepted the audit observation and so far (December 2010) paid up ₹ 0.25 lakh towards penalty.

4.9 Evasion of tax and penalty thereof

Suppression of sales turnover by two dealers not only resulted in evasion of VAT of ₹ 28.04 lakh but also attracted penalty of ₹ 56.07 lakh.

As per Section 39 (1) of the Manipur Value Added Tax (MVAT), Act, 2004, where after a dealer is assessed under section 34 of the Act for any year or part thereof, the Commissioner of Taxes has reason to believe that the whole or any part of the turnover of the dealer in respect of any period has escaped assessment or been under assessed; the Commissioner may proceed to assess to the best of his judgment, the amount of tax due in respect of such turnover.

Section 36 (7) provides *inter alia* that if the dealer in order to evade or avoid payment of tax, has furnished incomplete and incorrect returns for any period; the Commissioner shall direct that the dealer shall pay, by way of penalty a sum equal to twice the amount of additional tax assessed.

During test check (July 2010) of assessment records maintained in Taxation Zones-I and VIII, Imphal, it was noticed that the Assessing Authorities (AA) concerned assessed (April 2009 – April 2010) two dealers⁹ under section 34 (3) for the quarters endings ranging from March 2009 to March 2010 taking into account the taxable turnover of ₹ 23.72 lakh¹⁰ as returned by the dealers. Cross verification of records maintained in Taxation Headquarters Zone, however, revealed that these dealers sold/supplied various goods like steel and steel items, cement, ply, sanitary ware *etc.* worth ₹ 391.57 lakh¹¹ to another dealer¹² within the jurisdiction of Headquarters Zone. It, therefore, transpired that there was a concealment of sales turnover to the extent of ₹ 367.85 lakh which remained undetected by the AAs. VAT on the suppressed turnover and penalty leviable under section 36 (7) worked out to ₹ 28.04 lakh and ₹ 56.07 lakh respectively. Details shown vide **Appendix-4.3**.

⁹ (i) trade name M/s Gupta & Sons (TIN-14110071149), a dealer in iron & steel, cement, sanitary ware *etc.*

(ii) trade name M/s Lanchenbi Enterprises (TIN-14810422162) who deals in iron and steel, cement, hardware items

¹⁰ (i) M/s Gupta & Sons: goods with 12.5% rate of tax = ₹ 23.03 lakh

(ii) M/s Lanchenbi Enterprises: goods with 4% rate of tax = ₹ 0.69 lakh

Total = ₹ 23.72 lakh

¹¹ (i) M/s Gupta & Sons: Goods with 12.5% rate of tax = ₹ 85.19 lakh

(ii) M/s Lanchenbi Enterprises:

(a) Goods with 4% rate of tax = ₹ 211.83 lakh

(b) Goods with 12.5% rate of tax = ₹ 94.55 lakh

Total = ₹ 391.57 lakh

¹² (trade name) M/s Simplex Projects Limited (TIN-14010200175), Imphal

The matter was reported to the Government and the Department (August 2010); their reply is awaited (December 2010).

4.10 Non-recovery of tax

Timely action was not taken to recover the outstanding tax of ₹ 1.61 crore as arrears of land revenue

As per section 42(6) of the MVAT Act 2004, the amount that remains unpaid after the due date of payment in pursuance of the notice issued shall be recoverable as arrears of land revenue.

Rule 32 of the MVAT Rules 2005 further provides *inter alia* that for the purpose of recovery of tax due as arrears of land revenue, the appropriate Assessing Authority (AA) shall issue to the Collector a recovery certificate in "Form 37".

On scrutiny of the assessment records (July 2010) maintained in the Taxation Zones – Headquarters & VIII, we noticed that three dealers¹³ were assessed (March – November 2008) for Kerosene (PDS), MS and HSD¹⁴ on a taxable turnover of ₹ 40.18 crore involving VAT of ₹ 1.96 crore. The first and second dealer failed to clear the tax due of ₹ 1.51 crore while the third dealer paid VAT of ₹ 35.08 lakh within due date out of total due of ₹ 45.83 lakh leaving a balance of ₹ 10.75 lakh thereby resulting in accumulating arrear of tax to the extent of ₹ 1.61 crore¹⁵.

The AAs issued demand notices on 19 March 2008 directing M/s IOC Ltd. (AOD), Imphal Depot and M/s IOC Ltd. (MD) to clear the tax due within 30 days from the date of service of notice. The AA issued similar notice on 13 November 2008 directing M/s NRL Energy Station, City-I, Khurai to clear tax due within 30 days.

The tax due, however, remained unpaid (July 2010) even after expiry of more than one and a half years from the stipulated dates for payment of the dues. The AAs, however, did not initiate any action for recovery of the dues as arrears of land revenue by application of the provisions of the aforesaid Section and Rules. Hence, the flow of revenue of ₹ 1.61 crore to the State exchequer remained blocked.

The matter was reported to the Government and the Department during August 2010; their replies are awaited (December 2010).

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Sl. No.	Dealer's trade name	TIN	VAT (₹ in lakh)	VAT assessed for
1	M/s IOC Ltd. (AOD), Imphal Depot	14010364142	90.23	Kerosene (PDS)
2	M/s IOC Ltd. (MD), Imphal Depot	14010361112	60.38	Kerosene (PDS)
		Sub-total	150.61	
3	M/s NRL Energy Station, City-I, Khurai	14810098123	45.83	MS & HSD
		Total	196.44	

¹⁴ PDS – Public Distribution System; MS – Motor Spirit; HSD – High Speed Diesel

¹⁵ ₹ in lakh: 150.61 + 10.75 = 161.36

4.11 Non-levy of penalty for default in audit of accounts

The Department failed to levy penalty amounting to ₹ 10.56 lakh on dealers who did not comply with the mandatory provision under the MVAT Act, 2004.

Section 58 of the Manipur Value Added Tax (MVAT) Act 2004 provides *inter alia* that if the gross turnover of a dealer in any year exceeds ₹ 20 lakh or any other amount as fixed by the Commissioner of Taxes, such dealer's account shall be audited by a Chartered Accountant or by a person appointed to act as an Auditor of Companies by virtue of Section 226 (2) of the Companies Act, 1956 within six months from the end of the relevant year and the dealer shall furnish a copy of the certificate of the audit of accounts in Form '25' to the Tax authority by the end of the month after expiry of the six months cited above.

The Commissioner shall impose on the dealer a sum, by way of penalty, equal to 0.1 *per cent* of the Turnover in the event of the latter's failure to get his accounts audited and furnish a copy of the audit report.

During test-check (July 2010) of assessment records maintained by the Deputy Commissioner of Taxes/Assistant Commissioner of Taxes/Superintendent of Taxes in charges of Zones – Headquarters, I, II, III, IV, V and VI, it was noticed that in absence of any other quantum of turnover specified by the Commissioner of Taxes, 21 dealers whose turnover exceeded ₹ 20 lakh each during the period between 2006-07 and 2008-09 and whose assessments for the said years were finalised (December 2006 – January 2010), were required to get their accounts audited by a Chartered Accountant and submit the audit reports to the Tax authorities within the stipulated dates *i.e.* by October 2007, October 2008 and October 2009 respectively. However, while the dealers failed to comply with the mandatory provision even after expiry of 8 to 32 months from the prescribed period, the Department did not impose any penalty. This resulted in non-realisation of penalty to the extent of ₹ 10.56 lakh at the rate of 0.1 *per cent* on the Taxable Turnover of ₹ 10,556.44 lakh. Details are shown in **Appendix-4.4**.

The matter was referred to the Government and the Department in August 2010; their replies are awaited (December 2010).

4.12 Non-levy of interest

Interest accrued amounting to ₹ 11.41 lakh due to non-payment of the outstanding tax within the due dates remained non-levied.

Section 29 (1) (a) of MVAT Act, 2004 provides that if a dealer fails to pay the amount of tax due as per the return/self assessment/provision assessment; such dealers shall be liable to pay interest at the rate of 2 *per cent* per month from the date the tax payable had become due to the date of its payment or to the date of order of assessment, whichever is earlier.

On a test-check (July 2010) of assessment records maintained in Taxation Zones – Headquarters, V, VIII and IX, it was noticed that four dealers were assessed to total tax liability of ₹ 825.67 lakh for the period from July 2005 to March 2010. After adjusting the excess tax of ₹ 16 lakh paid up to June 2005, the net tax liability was ₹ 809.67 lakh. Out of this, the dealers paid up ₹ 796.99 lakh in parts after delays ranging from 3 days to 617 days. Tax amounting to ₹ 12.68 lakh remains outstanding (November 2010) as shown in the table below:

(₹ in lakh)

Sl No	Name of dealer	VAT Assessed	Excess tax paid upto previous quarter	Net VAT payable	Amount paid	VAT outstanding	Days defaulted	Interest leviable
1	M/s NRL Energy Station, Khabam, Imphal (TIN – 14010268152)	358.21	6.92	351.29	340.00	11.29	3 to 56	3.42
2	M/S Manipur Tobacco Mart (TIN – 14510228178)	123.07	-	123.07	130.07	(7.00)	5 to 29	0.54
3	M/s NRL Energy Station, Khurai (TIN – 14810098123)	326.63	9.08	317.55	309.16	8.39	7 to 617	5.96
4	M/s Khoriphaba LPG Service (TIN – 14910060158)	17.76	-	17.76	17.76	-	6 to 318	1.49
	Total	825.67	16.00	809.67	796.99	12.68		11.41

In terms of the provision *ibid*, the dealers were liable to pay interest amounting to ₹ 11.41 lakh for their failure to pay-up the tax dues on time. The Assessing Authorities concerned did not initiate action to levy the interest payable. Details of tax due, amount paid, amount outstanding and calculation of interest leviable are shown in **Appendix-4.5**.

The matter was referred to the Department (August 2010) and Government (September 2010).

The Department accepted the audit objection and stated (October 2010) that show cause notices have been issued to the respective dealers with a directive to furnish their reply on October 22, 2010. Further progress has not been intimated (December 2010).