

## CHAPTER I-GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenues raised by the Government of Meghalaya during the year 2012-13, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are shown below:

**Table 1**

(₹ in crore)

Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13 <sup>1</sup>
<b>1.</b>	<b>Revenues raised by the State Government</b>					
	• Tax revenue	369.44	444.29	571.45	697.54	847.72
	• Non-tax revenue	225.31	275.09	301.69	368.24	484.94
	<b>Total</b>	<b>594.75</b>	<b>719.38</b>	<b>873.14</b>	<b>1065.78</b>	<b>1332.66</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	595.23	612.38	901.65	1,044.19	1192.45
	• Grants-in-aid	1,620.66	2,115.59	2,491.23	2,544.50	3011.22
	<b>Total</b>	<b>2,215.89</b>	<b>2,727.97</b>	<b>3,392.88</b>	<b>3,588.69</b>	<b>4203.67</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>2,810.64</b>	<b>3,447.35</b>	<b>4,266.02</b>	<b>4,654.47</b>	<b>5532.33</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>21.16</b>	<b>20.87</b>	<b>20.47</b>	<b>22.90</b>	<b>24.10</b>

(Source: Finance Accounts)

The above table indicates that during the year 2012-13, the revenues raised by the State Government (₹ 1332.66 crore) was 24.09 per cent of the total revenue receipts as against 22.90 per cent in the preceding year. The balance 75.89 per cent of receipts during 2012-13 was from the Government of India.

**1.1.2** The following table presents the details of tax revenues raised during the period 2008-09 to 2012-13:

<sup>1</sup> For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Meghalaya for the year 2012-13. Figures under the head 0020 - Corporation tax; 0021 - Taxes on income other than corporation tax; 0032 - Taxes on wealth; 0037 - Customs; 0038 - Union excise duties; 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - 901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

Table 2 (Tax revenue)

							(₹ in crore)
Sl. No.	Head of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+) or decrease (-) in 2012-13 over 2011-12
1.	Sales Tax/VAT	271.07	298.44	327.77	425.31	549.99	(+) 29.31
	CST	10.76	22.96	85.11	87.19	81.13	(-) 6.95
2.	State excise	69.79	90.29	104.50	131.50	153.01	(+) 16.35
3.	Stamps & Registration fees	5.54	11.02	10.76	9.08	10.31	(+) 13.54
4.	Taxes and duties on electricity	0.03	0.05	0.26	0.87	0.93	(+) 6.89
5.	Taxes on vehicles	13.21	13.61	19.19	31.12	35.82	(+) 15.10
6.	Taxes on goods and passengers	3.31	3.50	4.37	4.39	4.68	(+) 6.60
7.	Other Taxes on Income and Expenditure	(-) 6.47	2.06	3.06	3.61	3.23	(-) 3.60
8.	Other Taxes and Duties on Commodities and Services	1.70	2.10	2.32	2.08	2.35	(+) 12.98
9.	Land revenue	0.50	0.26	17.11	2.40	6.27	(+) 161.25
	<b>Total</b>	<b>369.44</b>	<b>444.29</b>	<b>489.34</b>	<b>697.54</b>	<b>847.72</b>	<b>21.53</b>

(Source: Finance Accounts)

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

**Taxes and duties on electricity:** The increase was due to periodical inspections of installations.

**Taxes on vehicles:** The increase was due to increase of vehicles and revision of the rate of taxes.

**Land revenue:** The increase was due to the increase in collection of land revenue from the lessees.

**Excise:** The increase was due to the increase of consumption and implementation of holograms.

The other Departments did not inform (December 2013) the reasons for variation despite being requested (May 2013 and August 2013).

**1.1.3** The following table presents the details of major non-tax revenues raised during the period 2008-09 to 2012-13:

**Table 3 (Non-Tax Revenue)**

(₹ in crore)

Sl. No.	Head of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/decrease (-) in 2012-13 over 2011-12
1.	Mining receipts	132.73	198.21	215.58	262.58	357.97	(+) 36.32
2.	Interest receipts	17.82	23.28	24.72	27.13	25.38	(-) 6.45
3.	Forestry and wild life	17.36	20.03	22.05	26.03	30.87	(+) 18.59
4.	Public works	6.70	7.02	12.71	17.02	43.43	(+) 155.17
5.	Crop husbandry	3.22	2.80	4.11	4.58	4.97	(+) 8.51
6.	Animal husbandry	1.37	1.54	1.68	1.76	1.87	(+) 6.25
7.	Education, sports, art and culture	0.93	0.77	1.00	0.79	1.04	(+) 31.64
8.	Medical and public health	0.74	0.56	0.69	1.35	1.43	(+) 5.92
9.	Others	44.44	20.88	19.15	27.00	17.98	(-) 33.40
	<b>Total</b>	<b>225.31</b>	<b>275.09</b>	<b>301.69</b>	<b>368.24</b>	<b>484.94</b>	<b>31.69</b>

(Source: Finance Accounts)

The following reasons for variations were reported by the Departments:

**Mining and Geology Department:** The increase was due to revision in the rate of royalty on coal.

The other Departments did not inform (December 2013) the reasons for variation despite being requested (May 2013 and August 2013).

## **1.2 Response of the Government and assurances**

The succeeding paragraphs 1.2.1 to 1.2.5 discuss the response of the Departments/Government to audit.

### **1.2.1 Failure of senior officials to enforce accountability and protect the interest of the State Government**

The Accountant General (AG) (Audit), Meghalaya conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during such inspection not settled on the spot. The IRs are issued to the heads of offices with copies forwarded to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG (Audit) within one month from the date of issue of

the IRs. Serious financial irregularities are separately reported to the heads of the departments and the Government.

Review of IRs issued up to March 2013 disclosed that 174 paragraphs involving money value of ₹ 1235.76 crore relating to 174 IRs remained outstanding at the end of June 2013 as mentioned in Table 4.

**Table 4**

	June 2011	June 2012	June 2013
Number of outstanding IRs	154	181	174
Number of outstanding audit observations	661	747	676
Amount involved (₹ in crore)	1487.85	1300.75	1235.76

Department-wise details of IRs, audit observations pending settlement as on 30 June 2013 and the amounts involved are mentioned in Table 5.

**Table 5 (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.	53	268	577.47
		(b) State Excise	25	66	46.42
		(c) Stamps & Registration	14	22	1.63
		(d) State Lotteries	1	1	15.87
2.	Transport	Taxes on motor vehicles	45	162	391.54
3.	Mines and Minerals	Non-ferrous mining and metallurgical industries	19	60	178.98
4.	Environment and Forests	Forestry and wild life	17	97	23.85
<b>Total</b>			<b>174</b>	<b>676</b>	<b>1235.76</b>

In respect of six IRs issued during 2012-13, even the first reply required to be received from the heads of offices within one month from the date of issue of the IRs were not received upto December 2013. Pendency of IRs due to non-receipt of the replies is indicative of the fact that the Heads of offices and Heads of the departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the audit in the IRs.

*The Government may take suitable steps to install an effective system to ensure prompt and appropriate remedial action on audit observations as well as take appropriate action against officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules and also do not take action to recover amount realisable/outstanding demand in a time bound manner.*

**1.2.2 Departmental audit committee meetings**

The Government has set up audit committees to monitor and expedite the progress of settlement of IRs and paragraphs contained in the IRs. Details of audit committee meetings held during 2012-13 and paragraphs settled are mentioned in Table 6.

**Table 6 (Position of Audit Committee Meetings)***(₹ in crore)*

Name of the Department	Number of meetings held	Number of paragraphs settled
Excise, Registration, Taxation & Stamps (State Excise)	01	80
<b>Total</b>	<b>01</b>	<b>80</b>

The position of audit committee meetings remained the same as compared to the previous year (during which also only one Meeting was held) although the number of paras settled was higher as compared to the previous year (during which 26 paras were settled). However, the position when compared to the total outstanding paragraphs as depicted in Table 5 of this Chapter reveals that only 11.83 per cent of the total outstanding paragraphs could be settled.

An analysis of the total outstanding paragraphs indicated that highest number of audit objections were outstanding in respect of the Taxation Department. Thus the Taxation Department in particular and the other Departments in general need to gear up to arrange Audit Committee Meetings at regular intervals so that the position can be improved.

***The Government may make it mandatory for the Departments to hold at least one Audit Committee meeting every year.***

**1.2.3 Position of Inspection Reports**

The summarised position of Inspection Reports (IRs) issued during the year 2012-13 including those of previous four years and their status as on 01 April 2013 are tabulated below:

**Table 7 (Position of Inspection Reports)***(₹ 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
2008-09	270	693	1,686.57	50	246	980.08	10	122	1,359.79	310	817	1,306.86
2009-10	310	817	1,306.86	38	161	804.30	46	98	279.35	302	880	1,831.81
2010-11	302	880	1,831.81	55	220	269.78	203	444	613.74	154	656	1,487.85
2011-12	154	656	1,487.85	34	222	844.51	24	143	508.58	164	735	1,823.78
2012-13	164	735	1,823.78	52	272	471.13	39	314	1055.12	177	693	1,239.79

It would be seen from the above table that number of outstanding IRs and audit paragraphs has come down and so has the money value.

#### **1.2.4 Response of the Departments to the draft audit paragraphs**

The draft paragraphs are forwarded to the secretaries of the concerned departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the departments is invariably indicated at the end of each such paragraph included in the Audit Report.

Thirty eight audit paragraphs and one Performance Audit proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2013, Government of Meghalaya were forwarded to the Secretaries of the respective Departments between August 2013 and November 2013. Out of these, reply was furnished to only one paragraph up to November 2013. The remaining 37 paragraphs and one Performance Audit have been included without the response of the Government.

The lack of response of the Departments to the draft audit paragraphs and the Performance Audit is a matter of concern and the Government should address this issue at the earliest.

#### **1.2.5 Follow up on Audit Reports - summarised position**

As per Headquarters' instructions the State PACs are to send paras upto 2007-08 to the concerned Government for follow up. Accordingly, all outstanding paras for the Audit Reports upto 2008-09 have been referred to the PAC for necessary action.

A review of outstanding paragraphs included in the Reports of the Comptroller and Auditor General of India (Revenue Receipts), Government of Meghalaya disclosed that the concerned Departments of the State Government had not submitted *suo motu* explanatory notes on 150 paragraphs of Audit Reports for the years 2008-09 and 2011-12 (as on November 2013) as mentioned in the following table:

**Table 8**

Year of Audit Report	Date of presentation of the Audit Report to the Legislature	Number of paragraphs/reviews included in the Audit Report		Number of paragraphs/reviews for which <i>suo motu</i> replies are awaited	
		Paragraphs	Reviews	Paragraphs	Reviews
2008-09	28 May 2010	45	2	45	2
2009-10	16 March 2011	64	1	64	1
2010-11	23 March 2012	44	3	36	2
2011-12	09 October 2013	31	1	31	1
<b>Total</b>		<b>184</b>	<b>7</b>	<b>176</b>	<b>6</b>

The Departments also failed to submit ATNs on 48 paragraphs pertaining to revenue receipts for the years from 1982-83 to 2009-10 on which recommendations had been made by the PAC in their 16<sup>th</sup> to 37<sup>th</sup> Reports

presented before the State Legislature between December 1988 and March 2013, as mentioned below:

Table 9

Year of Audit Report	Number of paragraphs on which recommendations were made by the PAC but ATNs are awaited	Number of PAC Report in which recommendations were made
1982-83	2	16 <sup>th</sup>
1984-85	9	26 <sup>th</sup>
		19 <sup>th</sup>
1987-88	1	26 <sup>th</sup>
1988-89	1	20 <sup>th</sup>
1989-90	1	20 <sup>th</sup>
1990-91	11	26 <sup>th</sup>
		20 <sup>th</sup>
1991-92	3	26 <sup>th</sup>
		20 <sup>th</sup>
1997-98	1	33 <sup>rd</sup>
2008-09	16	37 <sup>th</sup>
2009-10	3	39 <sup>th</sup>
<b>Total</b>	<b>48</b>	

Thus, failure of the concerned Departments to comply with the instructions of the PAC defeated the objective of ensuring accountability of the executive.

### 1.2.6 Compliance with earlier Audit Reports

During the years from 2008-09 to 2012-13, the Departments/Government accepted audit observation involving revenue implication of ₹ 3276.63 crore (out of the total money value of ₹ 5381.57 crore) of which only ₹ 174.09 crore had been recovered till March 2013 as mentioned in Table 9.

Table 10 (Compliance with earlier Audit Reports)

Year of Audit Report	Total money value	Accepted money value	Amount recovered during the year
2008-09	1175.55	827.77	0.25
2009-10	1036.25	1.96	0.58
2010-11	1836.44	1587.03	172.99
2011-12	444.93	178.06	0.27
2012-13	888.40	681.81	-
<b>Total</b>	<b>5381.57</b>	<b>3276.63</b>	<b>174.09</b>

The amount recovered was thus only 5.31 *per cent* of the accepted amount while the Government/departments have accepted 60.89 *per cent* of the cases included in the Audit Reports. Thus the percentage of recovery against the accepted cases has been very low.

*The Government/Departments should take urgent steps to ensure recovery of the amount atleast in the accepted cases.*

### 1.3 Effectiveness of the mechanism for dealing with issues raised by audit

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

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Taxation Department** in dealing with cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2008-09 to 2011-12.

#### 1.3.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on September 2013 are shown below:

Table 11 (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
2008-09	19	111	76.40	14	109	47.58	-	10	2.73	33	210	121.25
2009-10	33	210	121.25	6	50	96.42	-	11	26.13	39	249	191.54
2010-11	39	249	191.54	21	142	101.36	21	164	102.96	39	227	189.94
2011-12	39	227	189.94	10	92	374.86	1	41	69.31	48	278	495.49
2012-13	48	278	495.49	14	125	341.30	12	134	275.70	50	268	561.09

Thus, during the last five year period, the closing balance of IRs and paragraphs registered an increasing trend which the Department needs to look into.

#### 1.3.2 Assurance given by the Department/Government on the issues highlighted in the Audit Reports

##### 1.3.2.1 Recovery of accepted cases

The position of paragraphs pertaining to the Taxation Department included in the Audit Reports of the last four years, those accepted by the Department and the amount recovered during 2012-13 are mentioned below:

Table 12 (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 (2012-13)
2008-09	23	784.99	5	481.98	-
2009-10	29	498.23	4	0.97	-
2010-11	23	215.39	-	-	-
2011-12	15	247.99	1	176.32	-
<b>Total</b>	<b>90</b>	<b>1746.60</b>	<b>10</b>	<b>659.27</b>	<b>-</b>

During the year, the Department failed to make any recovery in respect of any of the cases brought out in the previous Audit Reports which is a matter of concern.

### 1.3.2.2 Action taken on the recommendations of Audit

The performance audits conducted by the AG (Audit) are forwarded to the concerned departments/Government with a request to furnish their replies. These performance audits are also discussed in the Exit Conference and the Department's/Government's views received during the Exit Conferences and at other points are included while finalising the performance audits for the Audit Reports.

The following table shows the issues highlighted in the performance audit(s) on the Taxation Department that featured in the Audit Reports between 2008-09 and 2011-12 including the recommendations and action taken by the Department/Government.

Year of Audit Report	Name of the performance audit	Major Recommendations	Action taken by the Department/Government
2008-09	Transition from sales tax to VAT	<ul style="list-style-type: none"> <li>➤ Preparation of VAT manual.</li> <li>➤ Prescribing norms/guidelines for scrutiny of the returns by the AOs and monitoring the process.</li> </ul>	<p>VAT Manual has been prepared and has been circulated for use by the AOs.</p> <p>In respect of seven other recommendations, action taken was awaited (December 2013).</p>
2009-10	Exemptions, concessions and remissions under the Meghalaya Industrial Policy 1997 and the schemes made there under	<ul style="list-style-type: none"> <li>Taking steps to harmonise and sync the SWA guidelines with the provisions of the Industrial Policy 1997 and the Scheme of 2006</li> <li>Imposing penal action on defaulting industries set up in EPIP who fail to fulfil minimum export obligations</li> <li>Relocating the Byrnihat check post to a more suitable location</li> </ul>	<p>A High Level Committee has been constituted by the Government to oversee the process of setting up of integrated check gates in the State. As of December 2013, suitable location has not yet been identified by the Committee.</p> <p>In respect of four other recommendations, action taken was awaited (December 2013).</p>
2010-11	Cross-verification of declaration forms used in interstate trade or commerce	<ul style="list-style-type: none"> <li>Prescribing a system for ascertaining the genuineness of the forms submitted by the dealers through cross-verification of transaction with the issuing States.</li> <li>Issuing necessary instructions for timely submission of the declaration forms and ensuring that exemption/concession of tax is not allowed in the forms submitted after the prescribed period of three months without any recorded reasons.</li> </ul>	<p>The Commissioner of Taxes has made it mandatory for all AOs to verify the genuineness of 'C' forms from the TINXSYS website before making assessments.</p> <p>In respect of six other recommendations, action taken was awaited (December 2013).</p>
2011-12	Assessment, levy and collection of tax under the	Amend the MVAT Act and Rules suitably to avoid any ambiguity for effective levy and collection of VAT.	Action taken on all the five recommendations was awaited (December 2013)

	MVAT Act	Keeping a system in place for timely and effective completion of scrutiny and assessments.	
		Strengthening the check posts and the EB so as to prevent leakage of revenue.	

***The Government needs to devise suitable mechanism to monitor and ensure that the concerned Departments examine the recommendations offered by Audit through the reviews/performance audits etc. to assure good governance, plug scope for leakage and optimise revenue potential.***

#### ***1.4 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* include critical issues in Government revenues and tax administration *i.e.* budget speech, white paper on State Finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during past five years *etc.*

During the year 2012-13, out of 107 auditable units, 52 units were audited. Besides, one Performance Audit on “Controls and System for Mining in Meghalaya” was also conducted.

#### ***1.5 Results of audit***

##### ***1.5.1 Position of local audits conducted during the year 2012-13***

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 2012-13 revealed under assessments/short/non-levy/loss of revenue amounting to ₹ 471.13 crore in 272 cases. During the year, the departments accepted under assessments/short/non levy/loss of revenue of ₹ 51.80 crore in 53 cases pointed out in 2012-13 and recovered ₹ 0.96 crore.

##### ***1.5.2 This Report***

This Report contains 37 paragraphs and one Performance Audit involving ₹ 843.35 crore. These are discussed in the succeeding Chapters II to VII.