

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 2010-11, 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:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenues raised by the State Government					
	• Tax revenue	304.74	319.10	369.44	444.29	571.45
	• Non-tax revenue	184.37	199.35	225.31	275.09	301.69
	Total	489.11	518.45	594.75	719.38	873.14
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	447.18	564.07	595.23	612.38	901.65
	• Grants-in-aid	1,205.90	1,358.86	1,620.66	2115.59	2491.23
	Total	1,653.08	1,922.93	2,215.89	2727.97	3392.88
3.	Total revenue receipts of the State Government (1 and 2)	2,142.19	2,441.38	2,810.64	3447.35	4266.02
4.	Percentage of 1 to 3	22.83	21.24	21.16	20.87	20.47

During the year 2010-11, the revenues raised by the State Government (₹ 873.14 crore) was 20.47 *per cent* of the total revenue receipts as against 20.87 *per cent* in the preceding year. The balance 79.53 *per cent* of receipts during 2010-11 was from the Government of India.

¹ 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 2010-11. 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.

1.1.2 The following table presents the details of tax revenues raised during the period 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Tax on sales, trade etc. CST	215.82	234.90	271.07	298.44	324.77	(+) 8.82
				10.76	22.96	85.11	(+) 270.69
2.	State excise	53.95	58.62	69.79	90.29	104.50	(+) 15.74
3.	Taxes on vehicles	9.34	11.35	13.21	13.61	19.19	(+) 41.00
4.	Land revenue	5.58	2.12	0.50	0.26	17.11	(+) 6480.77
5.	Stamp duty and registration fees	6.49	5.99	5.54	11.02	10.76	(-) 2.36
6.	Taxes on goods and passengers	2.79	3.58	3.31	3.50	4.37	(+) 24.86
7.	Taxes and duties on electricity	0.03	0.03	0.03	0.05	0.26	(+) 420.00
8.	Others	10.74	2.51	(-) 4.77	4.16	5.38	(+) 29.33
	Total	304.74	319.10	369.44	444.29	571.45	

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

Excise: The increase was due to increase in number of IMFL retail shops/bonded warehouse licences.

Transport: The increase was due to increase in number of vehicles registered.

The other Departments did not inform Audit (September 2011) of the reasons for variations, despite being requested (April 2011).

1.1.3 The following table presents the details of major non-tax revenues raised during the period 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/decrease (-) in 2010-11 over 2009-10
1.	Mining Receipts	109.03	123.66	132.73	198.21	215.58	(+) 8.76
2.	Interest receipts	13.36	15.38	17.82	23.28	24.72	(+) 6.19

3.	Forestry and wild life	16.66	15.60	17.36	20.03	22.05	(+) 10.08
4.	Public works	5.11	4.24	6.70	7.02	12.71	(+) 81.05
5.	Crop husbandry	2.21	2.38	3.22	2.80	4.11	(+) 46.79
6.	Animal husbandry	1.56	1.47	1.37	1.54	1.68	(+) 9.09
7.	Education, sports, art and culture	0.91	0.53	0.93	0.77	1.00	(+) 29.87
8.	Medical and public health	1.08	0.56	0.74	0.56	0.69	(+) 23.21
9.	Miscellaneous general services including State lotteries	17.96	18.98	24.13	0.16	0.17	(+) 6.25
10.	Others	16.49	16.55	20.31	20.72	18.98	(-) 8.40
Total		184.37	199.35	225.31	275.09	301.69	

None of the Departments informed Audit (September 2011) of the reasons for variations despite being requested (April 2011).

1.1.4 Initiatives for mobilising additional resources

In the State Finance Minister's Budget speech 2010-11², the following additional resource mobilisation efforts during 2010-11 were proposed:

(I) Amendment of the Meghalaya Tax on Luxuries (Hotels and Lodging Houses) Act, 1991 to rationalise the tax on room tariff with a view to encourage and promote tourism.

(II) To enhance the rate of VAT on items presently fixed at four *per cent* to five *per cent*.

(III) Generate additional revenue of around ₹ 10 crore annually from introduction of holograms in the sale of liquor.

(IV) Additional revenue of ₹ 42 crore expected due to revision of royalty on coal from ₹ 165 to ₹ 290 per MT.

Our scrutiny however revealed that the Meghalaya Tax on Luxuries (Hotel and Lodging Houses) Act, 1991 was not amended. Revenues of ₹ 92.73 lakh was realised on sale of holograms against the estimated ₹ 10 crore. Out of the ₹ 42 crore additional revenue expected due to enhancement of royalty on coal, the additional revenue on this count over the previous year was only ₹ 17.37 crore despite increase in coal production from 57.67 lakh MT in 2009-10 to 69.74 lakh MT during 2010-11.

The wide variation between the expected additional resource mobilisation and actual collection indicated the need for more analytical, rigorous and realistic budgetary forecasting methodologies and procedures.

² 26 March 2010

1.2 Response of the Government and assurances

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

The Principal Accountant General (PAG) (Audit), Meghalaya conducts periodic inspection of the various offices of the Government Departments to test check the correctness of assessments, levy and collection of tax and non-tax receipts, and verify the maintenance of accounts and records as per the Acts, Rules and procedures prescribed by the Government. These inspections are followed up with the inspection reports (IRs) issued to the heads of offices inspected with copies to the higher authorities. Serious irregularities noticed in audit are also brought to the notice of the Government/head of the Department by the office of the PAG (Audit). An annual report regarding pending IRs is sent to the Secretaries of the concerned Government Departments to facilitate monitoring and settlement of the audit observations raised in these IRs through the intervention of the Government.

IRs issued upto March 2011 pertaining to the offices under seven Departments³ disclosed that 154 IRs involving money value of ₹ 1,487.85 crore remained unsettled at the end of June 2011. Of these, 25 IRs containing 83 observations involving money value of ₹ 172.18 crore pertaining to the offices under six Departments⁴ had not been settled for more than five years.

In respect of 29 IRs involving money value of ₹ 191.87 crore issued during 2010-11, even the first reply has not been received from the Departments/Government (September 2011). The status regarding position of old outstanding IRs/paragraphs was reported to the Government in July 2011; their reply has not been received (September 2011).

1.2.2 Departmental Audit Committee Meetings

In order to expedite the settlement of the outstanding audit observations contained in the IRs, Departmental audit committees have been constituted by the Government. These committees are chaired by the secretaries of the concerned administrative Departments and their meetings are attended by the concerned officers of the State Government and officers of the PAG.

During the year 2010-11, we held three audit committee meetings - two⁵ with Excise, Registration, Taxation and Stamps Department and one⁶ with Forest Department in which we discussed 155 IRs containing 474 audit observations. As

³ Forest, Mining & Geology, Sales Tax, Stamps & Registration, State Excise, State Lottery and Transport Departments.

⁴ Forest, Mining & Geology, Sales Tax, Stamps & Registration, State Excise and Transport Departments.

⁵ October and November 2010

⁶ July 2010

a result of discussion, 130 IRs containing 382 audit observations were settled as shown below:

(₹ in crore)

Department	IRs discussed	IRs settled	Observations discussed	Observations settled	Money value
Sales tax, ERTS	53	40	180	133	96.54
Excise, ERTS	57	50	201	181	48.20
Forest	45	40	93	68	8.38
Total	155	130	474	382	153.13

1.2.3 Position of Inspection Reports

The summarised position of inspection reports issued during the year 2010-11 including those of previous four years and their status as on 01 April 2011 are tabulated below:

(₹ 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
2006-07	255	718	834.53	41	192	517.94	21	206	140.86	275	704	1,211.61
2007-08	275	704	1,211.61	38	122	748.75	43	133	273.79	270	693	1,686.57
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

It would be seen from the above that the number of IRs and outstanding audit observations/paragraphs have come down, however the money value of these paragraphs has increased to ₹ 1,487.85 crore.

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.

44 audit paragraphs and three Performance Audits proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2011, Government of Meghalaya were forwarded to the Secretaries of the respective Departments in July 2011. Out of these, replies were furnished to only eight paragraphs and two Performance Audits upto October 2011. The remaining 36 paragraphs have been included without the response of the Government.

1.2.5 Follow up on Audit Reports-summarised position

As per Headquarter's 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 2007-08 have been referred to the PAC for necessary action.

A review of outstanding ATNs as of September 2011 on the 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 112 paragraphs of Audit Reports for the years 2008-09 and 2009-10 as mentioned below:

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 suo motu replies are awaited	
		Paragraphs	Performance Audits	Paragraphs	Performance Audits
2008-09	28 May 2010	45	2	45	2
2009-10	16 March 2011	64	1	64	1
Total		109	3	109	3

The Departments did not submit ATN on 37 out of 38 paragraphs pertaining to revenue receipts for the years from 1982-83 to 2008-09 on which recommendations had been made by the PAC in their 16th to 37th Reports presented before the State Legislature between December 1988 and May 2010, as mentioned below:

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 th
1984-85	9	26 th 19 th
1987-88	1	26 th
1988-89	1	20 th
1989-90	1	20 th
1990-91	11	26 th 20 th
1991-92	3	26 th 20 th
1997-98	1	33 rd
2008-09	1	37 th
Total	30	

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

1.3 Status of assurances by the Department/Government on the issues highlighted in the Audit Reports

In order to analyse the system of addressing the issues highlighted in the Inspection Reports (IRs)/Audit Reports by the Department/Government the action taken on the paragraphs included in the Inspection Reports/Audit Reports by the Transport Department is shown in the succeeding paragraphs.

- During the last five years, 32 IRs containing 111 paragraphs involving money value of ₹ 349.23 crore were issued to the Department/Government.
- Out of the 32 IRs issued during the last five years, even first reply has not been received in respect of 14 IRs involving money value of ₹ 337.69 crore.
- Out of 111 paragraphs involving money value of ₹ 349.23 crore, the Department has accepted paragraphs involving money value of ₹ 10.16 lakh against which, no recovery has been made in all the cases (September 2011). No intimation in respect of the remaining has been given to audit (September 2011).
- During 2006-07 to 2010-11, 24 paragraphs and two Performance Audits involving money value of ₹ 1642.45 crore in respect of Transport Department have featured in the Audit Reports of the Comptroller and Auditor General of India, Government of Meghalaya. The Department accepted 7 paragraphs involving money value of ₹ 1236.43 crore and recovered ₹ 4 lakh. No reply has been received in respect of the remaining paragraphs.

We recommend that the Government may consider taking 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.

1.3.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years (including current year's report), those accepted by the Department and the amount recovered are mentioned below:

(₹ in crore)					
Year of AR	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value accepted paragraphs	Amount recovered during the year
2006-07	40	6,847.81	14	736.18	3.98
2007-08	42	829.85	5	729.73	0.38
2008-09	47	1,175.55	13	827.77	0.25
2009-10	65	1,036.25	07	1.96	0.58
2010-11	48	1836.44	8	1587.03	172.99
Total	242	11,725.90	47	3882.67	178.18

Thus, against the accepted cases involving ₹ 3882.67 crore, the Departments/ Government could recover a sum of ₹ 178.18 crore. Out of this, based on our audit findings in para 2.20 of the Comptroller and Auditor General of India's Audit Report for the year 2008-09, the Department preferred compensation claim for loss on account of introduction of VAT and as a result, ₹ 167.42 crore was paid by the Government of India.

We recommend that the Department may take immediate action to install a mechanism to pursue and monitor prompt recovery of dues involved in accepted cases.

1.3.2 Arrears in assessments

The information furnished by the Department relating to the position of arrears in assessment during the year 2010-11 is as under:

Category of cases under the Acts	Opening balance at the beginning of the year	Addition during the year	Total	(No. of assessments)		
				Finalised during the year	Pending at the end of the year	Percentage of finalised cases to the total cases
CST/MST/VAT	3,25,802	21,621	3,47,423	15,823	3,31,600	4.55
MSL	11,069	331	11,400	164	11,236	1.44
Total	3,36,871	21,952	3,58,523	15,987	3,42,836	4.46

The finalisation of pending cases during 2010-11 was only 4.46 per cent of the total cases due for assessment which is very low.

The Department needs to take prompt measures to finalise the pending assessment cases at an early date, especially VAT assessments. It may be mentioned that VAT assessment for the year 2005-06 has already become time-barred due to non-completion of assessment within a period of five years.

After we pointed out the position of arrears in assessment, the Department stated that all assessments (79398 cases) up to period ending 30 April 2005 under the Repealed Act would be finalised by 31 December 2011.

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

The Performance Audits conducted by this office are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These Performance Audits are also discussed in exit conferences and the Departments'/Government's views are included while finalising the Performance Audits for the Audit Report.

During the period from 2006-07 to 2010-11, seven Performance Audits pertaining to Taxation, Forest, Transport, Lottery and Excise Departments containing 65 recommendations were discussed with the Departments/Government. All the recommendations were accepted with an assurance to look into them. However, the Departments/Government have taken action in seven recommendation and following systems have been put in place by the Taxation Department:-

1. The definition of cost price was included in the Meghalaya Excise Rules (Assam Excise Rules, 1945 as adopted by the Government of Meghalaya).
2. Database of risky dealers. The Department has entrusted the Deputy Commissioner of Taxes the work relating to framing the parameters for

easy detection of dubious/risky dealers. This list is proposed to be prepared in an electronic format for hoisting in the website.

3. Erection of Integrated checkgate. Action has already been initiated to establish integrated checkgates and the process of site selection is in progress.
4. Dealers having turnover over ₹ 40 lakh. The Commissioner of Taxes had requested National Informatics Centre to develop a database of such dealers.
5. Form for claiming exemption for goods taxable under Schedule V of the MVAT Act. The Department has prepared E-Return formats for cross verification of goods taxable under Schedule V of the MVAT Act.
6. Cross verification with Income Tax/Central Excise Department. The Commissioner has issued instructions for mandatory cross verification of particulars with Income Tax/Central Excise Departments.
7. The Commissioner has already issued instructions to the STs to furnish monthly return showing submission of returns/registration of dealers etc., to him. Instructions have also been issued for supervisory inspection by the DCT/ACT.

Though the concerned Departments/Government accepted all the remaining recommendations, they are yet to streamline the system/amend the provisions as recommended by us.

We recommend that the Government put in place a monitoring mechanism to watch and ensure timely action on the recommendations accepted by the concerned Departments in the best interest of the revenue of the State.

1.4 Planning for audit during 2010-11

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 2010-11, out of 168 auditable units, 96 units were planned and audited. Besides, three Performance Audits on “Forest receipts”, “Cross verification of declaration forms in interstate trade or commerce” and “Computerisation of Motor Vehicles Department” were also conducted.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

Test check of the records of taxes on sales, trade etc., state excise, motor vehicles tax, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2010-11 revealed underassessment/short/non-levy/loss of revenue amounting to ₹ 557.24 crore in 240 cases. During the year, the Departments accepted underassessment/short/non levy/loss of revenue of ₹ 1695.49 crore in 74 cases pointed out in 2010-11 and earlier years, and recovered ₹ 10.73 crore.

1.5.2 This Report

This Report contains 44 paragraphs and three Performance Audits involving ₹ 268 crore. These are discussed in the succeeding chapters.