

CHAPTER – I
GENERAL



CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The revenue receipts of the State for the year 2016-17 comprised of:

- Tax and non-tax revenues raised by the Government of Meghalaya
- State's share of net proceeds of divisible Union taxes and duties assigned to the State, and
- grants-in-aid received from Government of India

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

Table 1.1 Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenues raised by the State Government					
	Tax revenue	847.72	949.29	939.21	1056.82	1186.01
	Non-tax revenue	484.94	598.15	343.29	228.60	685.24
	Total	1332.66	1547.44	1282.50	1285.42	1871.25
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	1192.45	1301.96	1381.69	3276.46	3911.05
	Grants-in-aid	3011.22	3417.29	3764.08	2481.25	3156.65
	Total	4203.67	4719.25	5145.77	5757.71	7067.70
3.	Total revenue receipts of the State Government (1 and 2)	5532.33	6266.69	6428.27	7043.13	8938.95
4.	Percentage of 1 to 3	24.10	24.69	19.95	18.25	20.93

(Source: Finance Accounts)

The above Table indicates that during the year 2016-17, the revenues raised by the State Government (₹ 1871.25 crore) was 20.93 per cent of the total revenue receipts as against 18.25 per cent in the preceding year but it was less than 2012-13 and 2013-14 in terms of percentage. The balance 79.07 per cent of receipts during 2016-17 was from the Government of India.

1.1.2 The following *Table 1.2* presents the details of Budget Estimates (BE) and actual tax revenues raised during the period 2012-13 to 2016-17:

Table 1.2 Details of Tax revenue

(₹ in crore)

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over 2015-16	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Taxes on sales, trade etc.	517.17	631.12	622.83	723.65	914.9	726.2	766.36	811.79	940.47	931.06	(+) 22.71	(+) 14.69
2	State Excise	143.08	153.01	161.69	162.66	205.16	151.14	194.15	170.04	238.24	168.98	(+) 22.70	(-) 0.62
3	Motor Vehicles Tax	31.62	35.82	38.87	36.71	50	39.38	29.45	42.01	50.68	48.22	(+) 72.08	(+) 14.78
4	Stamp duty	12.44	10.31	14.06	9.77	16.66	9.9	12.59	12.74	14.48	17.19	(+) 15.01	(+) 34.92
5	Land revenue	3.59	6.27	4.02	3.47	4.22	0.08	4.77	3.18	5.49	1.27	(+) 15.09	(-) 60.06
6	Taxes and duties on electricity	1.37	0.93	1.37	1.89	1.72	0.81	1.98	3.32	2.28	2.34	(+) 15.15	(-) 29.51
7	Others	8.56	10.26	9.67	11.14	13.65	11.71	9.07	13.74	16.41	16.95	(+) 80.92	(+) 23.36
TOTAL		717.83	847.72	852.51	949.29	1206.31	939.22	1018.37	1056.82	1268.05	1186.01	(+) 24.51	(+) 12.22

(Source: Finance Accounts)

The following reasons for actual increase/decrease in receipts over the previous year were reported by the Departments:

Sales Tax: The increase was due to increase in tax on sales of motor spirits and lubricants and trade tax.

Motor Vehicle Tax: The increase was due to increase in other receipts under the Motor Vehicles Act.

The other Departments did not state the reasons for increase/decrease in receipts despite being requested (May 2017 and September 2017).

1.1.3 The details of the BE and actual non-tax revenue raised during the period 2012-13 to 2016-17 are indicated in *Table 1.3*.

Table 1.3 Non-Tax Revenue

(₹ in crore)

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over 2015-16	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Mining receipts	343.62	357.97	375.80	455.75	516.00	195.10	112.21	60.75	232.40	469.52	(+) 107.11	(+) 672.87
2.	Interest receipts	26.01	25.38	27.45	33.57	31.61	37.73	34.77	39.33	39.99	46.25	(+) 15.01	(+) 17.59
3.	Forestry and wildlife	27.56	30.87	35.51	60.12	40.83	71.99	68.44	72.08	81.85	103.99	(+) 19.59	(+) 44.27
4.	Public works	9.02	43.43	9.41	12.22	10.35	6.28	12.57	8.40	14.46	10.21	(+) 15.03	(+) 21.54
5.	Miscellaneous general services	12.44	0.37	14.93	1.05	16.53	0.02	18.75	0.12	21.56	1.06	(+) 14.98	(+) 783.33
6.	Other administrative services	6.31	3.36	4.97	7.85	8.11	6.13	8.86	3.49	10.19	3.11	(+) 15.01	(-) 10.88
7.	Police	6.88	2.89	7.64	5.92	8.41	3.85	9.69	16.28	11.14	25.21	(+) 14.96	(+) 54.85
8.	Medical and public health	1.50	1.43	1.62	1.99	1.98	2.72	2.12	1.55	2.44	1.58	(+) 15.09	(+) 1.93
9.	Co-operation	1.01	0.05	1.08	0.06	1.11	0.05	1.45	0.04	1.67	0.05	(+) 15.17	(+) 25.00
10.	Other receipts	35.55	19.19	38.18	19.62	44.53	19.42	43.31	26.60	50.46	24.26	(+) 16.50	(-) 8.79
TOTAL		469.90	484.94	516.59	598.15	679.46	343.29	312.17	228.60	466.16	685.24	(+) 49.32	(+) 199.75

(Source: Finance Accounts)

The following reasons for actual increase/decrease in receipts over the previous year were reported by the Departments:

Mining: The increase was mainly due to increase in mineral concession fees and rent and royalties.

Forest: The increase was due to increase in sale of timber and other forest produce and receipts from zoological park and public gardens.

The other Departments did not state the reasons for increase/decrease in receipts despite being requested (May 2017 and September 2017).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 under some principal heads of revenue amounting to ₹ 52.28 crore, of which ₹ 31.45 crore was outstanding for more than five years as detailed in Table 1.4.

Table 1.4

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than 5 years as on 31 March 2017	Department's reply
1.	0040-Taxes on Sale, Trade etc.	51.89	31.07	Reply not furnished
2.	0039- State Excise	0.31	0.31	The Department stated that accumulation of arrears was due to non-payment of 50 per cent share on country liquor by clan chiefs.
3.	0029- Land Revenue	0.08	0.07	Reply not furnished
Total		52.28	31.45	

(Source: Information furnished by the Departments)

It would be seen from the above Table that recovery of ₹ 52.28 crore was pending against four of the principal heads of revenue which was 2.79 per cent of the State's own revenue collection for 2016-17. Revenue amounting to ₹ 31.45 crore (60.16 per cent of the total revenue arrears) was pending for recovery for more than five years. It indicates that the chances of recovery are remote and also points to systemic weakness in the revenue recovery mechanism of the State Government.

1.3 Arrears of assessments

The details of cases of Taxes on sales, trade etc., pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and cases pending for finalisation at the end of the year is shown below in Table 1.5.

Table 1.5 Arrears in assessments

Head of revenue	Opening balance as on 1 April 2016	New cases due for assessment during 2016-17	Total assessments due	Cases disposed of during 2016-17	Balance at the end of the year	Percentage of disposal (Col. 5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
0040- Taxes on sales, trade etc.	44688	33875	78563	16417	62146	20.90

(Source: Information furnished by the Sales Tax Department)

It may be seen from the above that during 2016-17 the number of cases disposed was less than the new cases that became due during the year. The percentage of disposal compared to the cases due for assessments was only 20.90 per cent, which has resulted in increase of arrears of assessments. Pendency in assessments may result in non/short realisation of Government revenues and further accumulation in arrear revenue.

1.4 Evasion of tax detected by departments

The details of cases of evasion of tax detected by Sales Tax Department, cases finalised and demands for additional tax raised as reported by the Department during 2016-17 are given in *Table 1.6*.

Table 1.6 Evasion of tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2016	Cases detected during 2016-17	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2017
					Cases	Demand raised (₹ in crore)	
1	0040	606	Nil	606	2	0.46	604

(Source: Information furnished by the Department)

The other departments did not inform the position of tax evasion cases despite being requested (May 2017 and September 2017).

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2016-17, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2016-17 as reported by the Departments is given in *Table 1.7*.

Table 1.7 Details of pendency of refund cases

Sl. No.	Particulars	Sales Tax/VAT		State Excise	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount
1	Claims outstanding at the beginning of the year	07	3.43	Information not furnished	
2	Claims received during the year	Nil	Nil		
3	Refunds made during the year	Nil	Nil		
4	Balance outstanding at the end of the year	07	3.43		

The Meghalaya Value Added Tax Act provides for the payment of interest at the rate of 8 per cent per annum in case of refund, if the amount is not refunded to the dealer within 90 days from the date of any order authorising such refund. As such, the Department may expedite the process of refund in such cases which are outstanding to avoid payment of interest on delayed refund.

1.6 Response of the Government/departments towards audit

The succeeding paragraphs 1.6.1 to 1.6.5 discuss the response of the Departments/Governments to audit.

1.6.1 Position of outstanding Inspection Reports

The Principal Accountant General (Pr. AG) (Audit), Meghalaya conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during such 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 respond to the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Pr. AG (Audit) within one month from the date of issue of the IRs. Serious financial irregularities are separately reported to the heads of the departments and the Government.

Review of IRs issued upto March 2017 disclosed that 1403 paragraphs involving money value of ₹ 1774.92 crore relating to 308 IRs remained outstanding at the end of June 2017 as mentioned in *Table 1.8*.

Table 1.8 Position of outstanding IRs and Paragraphs

Year/Details	June 2014	June 2015	June 2016	June 2017
Number of outstanding IRs	214	254	264	308
Number of outstanding audit observations	749	999	1058	1403
Amount involved (₹ in crore)	1568.32	1889.89	1124.57	1774.92

Department-wise details of IRs, audit observations pending settlement as on 30 June 2017 and the amounts involved are mentioned in *Table 1.9*.

Table 1.9 Department wise position of outstanding IRs and paragraphs

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise, Registration, Taxation & Stamps	(a) Taxes on sales, trade, etc.	107	543	695.72
		(b) State Excise	54	229	62.69
		(c) Stamps & Registration	19	36	2.53
		(d) State Lotteries	2	3	56.36
2.	Transport	Taxes on motor vehicles	74	288	185.21
3.	Mines and Minerals	Mining receipts	17	71	595.82
4.	Environment and Forests	Forestry and wild life	35	233	176.59
Total			308	1403	1774.92

In respect of 17 IRs out of 49 IRs issued during 2016-17, even the first reply required to be received from the heads of offices within one month from the date of issue of the IRs was not received upto September 2017. Pendency of IRs due to non-receipt of the

replies may be because the Heads of offices and Heads of the departments had not initiated any action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

1.6.2 Summarised position of Inspection Reports

The summarised position of IRs issued during the year 2016-17 including those of previous four years and their status as on 01 April 2017 are mentioned in *Table 1.10*.

Table 1.10 Position of IRs

(₹ in crore)

Year	Opening balance			Addition			Clearance			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2012-13	164	735	1823.78	52	272	471.13	39	314	1055.12	177	693	1239.79
2013-14	177	693	1239.79	50	265	644.90	13	183	198.13	214	775	1686.56
2014-15	214	775	1686.56	52	331	625.26	01	126	1274.67	265	980	1037.15
2015-16	265	980	1037.15	37	249	635.57	30	160	542.45	272	1069	1130.27
2016-17	272	1069	1130.27	49	397	877.87	04	49	203.64	317	1417	1804.50

It would be seen from the above table that number of outstanding IRs and audit observations had increased in 2016-17 over 2015-16 which shows that the departments have made little progress in settlement of the audit observations. The departments need to take suitable action to settle the audit observations by holding Audit Committee Meetings so that the IRs and audit observations may be settled.

1.6.3 Response of the departments to the draft audit paragraphs

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

Twenty-eight audit paragraphs and a Performance Audit (PA) included in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2017, Government of Meghalaya, were forwarded to the Secretaries of the concerned departments between July 2017 and October 2017 followed by reminders in January 2018. Out of these, replies were furnished in respect of the PA and twenty audit paragraphs upto February 2018. The remaining eight paragraphs have been included without the response of the Government.

1.6.4 Follow up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), notified in December 2012, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate

action on the audit paragraphs. The Government should, thereon, submit the action taken explanatory notes within three months of tabling of the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed. Three hundred and twenty two paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India (Revenue Sector), for the years ended 31 March 2009 to 2016, Government of Meghalaya were placed before the State Legislature between May 2010 and March 2017. The *suo-motu* explanatory notes from the concerned Departments are awaited in respect of 213 paragraphs which was 66 per cent of the total audit observations (November 2017).

The PAC discussed 35 selected paragraphs¹ between April 2011 and March 2017 and their recommendations on 14 paragraphs were incorporated in two PAC Reports (37th and 39th Reports) for the years 2008-09 and 2009-10. However, Action Taken Notes (ATNs) have not been received (December 2017) in respect of 14 recommendations made by the PAC from the Departments concerned as mentioned in *Table 1.11*.

Table 1.11 Outstanding ATNs

Year	Name of the Department	Number of ATNs awaited
2008-09	Sales Tax	11
2009-10	Sales Tax	02
2009-10	Stamps and Registration	01
Total		14

1.6.5 Compliance with earlier Audit Reports

During the period from 2012-13 to 2016-17, the departments accepted audit observations involving revenue implication of ₹ 901.56 crore (out of the total money value of ₹ 2569.12 crore). Revenue amounting to ₹ 9.41 crore had been recovered till December 2017 as mentioned in *Table 1.12*.

Table 1.12 Compliance with earlier Audit Reports

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Amount recovered during the year
2012-13	888.40	681.81	--
2013-14	186.44	46.21	--
2014-15	457.45	167.72	2.37
2015-16	674.14	5.82	7.04
2016-17	362.69	--	--
Total	2569.12	901.56	9.41

The amount recovered was thus only 1.04 per cent of the accepted amount while the Government/departments have accepted 35.09 per cent of the total money value

¹ Pertaining to the Audit Reports for the years 2008-09, 2009-10, 2013-14 and 2014-15.

included in the Audit Reports. Thus the percentage of recovery against the accepted cases has been very low.

1.7 Analysis of the mechanism for dealing with the issues raised by audit

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

1.7.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status in respect of Forest Department as on September 2017 are shown in *Table 1.13*.

Table 1.13 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
2012-13	26	108	29.12	08	64	14.50	17	76	1.91	17	96	41.71
2013-14	17	96	41.71	09	45	18.62	01	21	9.72	25	120	50.61
2014-15	25	120	50.61	08	64	47.47	02	46	3.21	31	138	94.87
2015-16	31	138	94.88	07	48	30.74	05	28	1.52	33	158	124.10
2016-17	33	158	123.80	03	81	52.79	01	6	0	35	233	176.59

1.7.2 Recovery of accepted cases

The position of paragraphs pertaining to the Forest Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2016-17 are mentioned in *Table 1.14*.

Table 1.14 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 (2016-17)
2011-12	03	2.18	--	--	--
2012-13	04	7.06	01	0.43	--
2013-14	03	2.07	01	0.59	--
2014-15	05	46.85	02	43.40	0.65
2015-16	05	30.54	01	12.99	--
Total	20	88.70	05	57.41	0.65

During the last five years, the Department accepted five out of the twenty audit paragraphs. However, against the accepted cases involving money value of ₹ 57.41 crore, the department recovered only ₹ 0.65 crore which is a matter of concern.

1.8 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* includes critical issues in Government revenues and tax administration *i.e.* budget speech, white paper on State Finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during past five years *etc.*

During the year 2016-17, out of 129 auditable units, 55 units were audited. Besides this, a PA on “Wildlife and Forest Management in Meghalaya” was also conducted.

1.9 Results of audit

1.9.1 Position of local audits conducted during the year 2016-17

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 2016-17 revealed under assessments/ short/non-levy/loss of revenue amounting to ₹ 877.87 crore in 397 cases. During the year, the departments accepted under assessments/short/non-levy/loss of revenue of ₹ 387.17 crore in 201 cases pointed out in 2016-17 and recovered ₹ 0.67 crore.

1.10 This Report

Audit noticed that the Revenue earning departments had weak internal controls to detect under assessment, short payment, evasion of taxes, fees, royalties and other irregularities. There was no system in place to actively exchange information and co-ordinate amongst the departments for cross verification of records to detect illegal transportation of mineral, evasion of VAT, royalties, excise duties *etc.*

This Report contains 28 paragraphs (selected from the audit detections made during test audit in the year 2016-17). Paragraphs from earlier years which could not be included in the previous Audit Reports are also included. A Performance Audit on “Wildlife and Forest Management in Meghalaya” is also included in the Report. Cumulatively, these audit observations have revenue implication of ₹ 361.51 crore.

The Departments have accepted audit observations involving ₹ 196.14 crore² and recovered ₹ 1.46 crore. The replies in the remaining cases have not been received (February 2018). These are discussed in the succeeding Chapters.

² In respect of the six paragraphs of Taxation Department, five paragraphs of State Excise Department and the Performance Audit.

