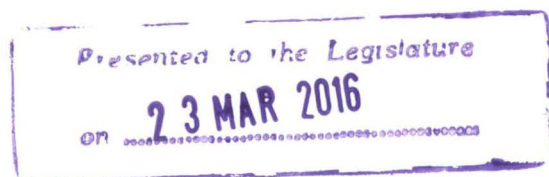


**REPORT OF THE COMPTROLLER AND
AUDITOR GENERAL OF INDIA
(REVENUE SECTOR)**



FOR THE YEAR ENDED 31 MARCH 2015

**GOVERNMENT OF MEGHALAYA
(REPORT NO. 1 OF 2016)**



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Preface

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2015 has been prepared for submission to the Governor of Meghalaya under Article 151 of the Constitution of India.

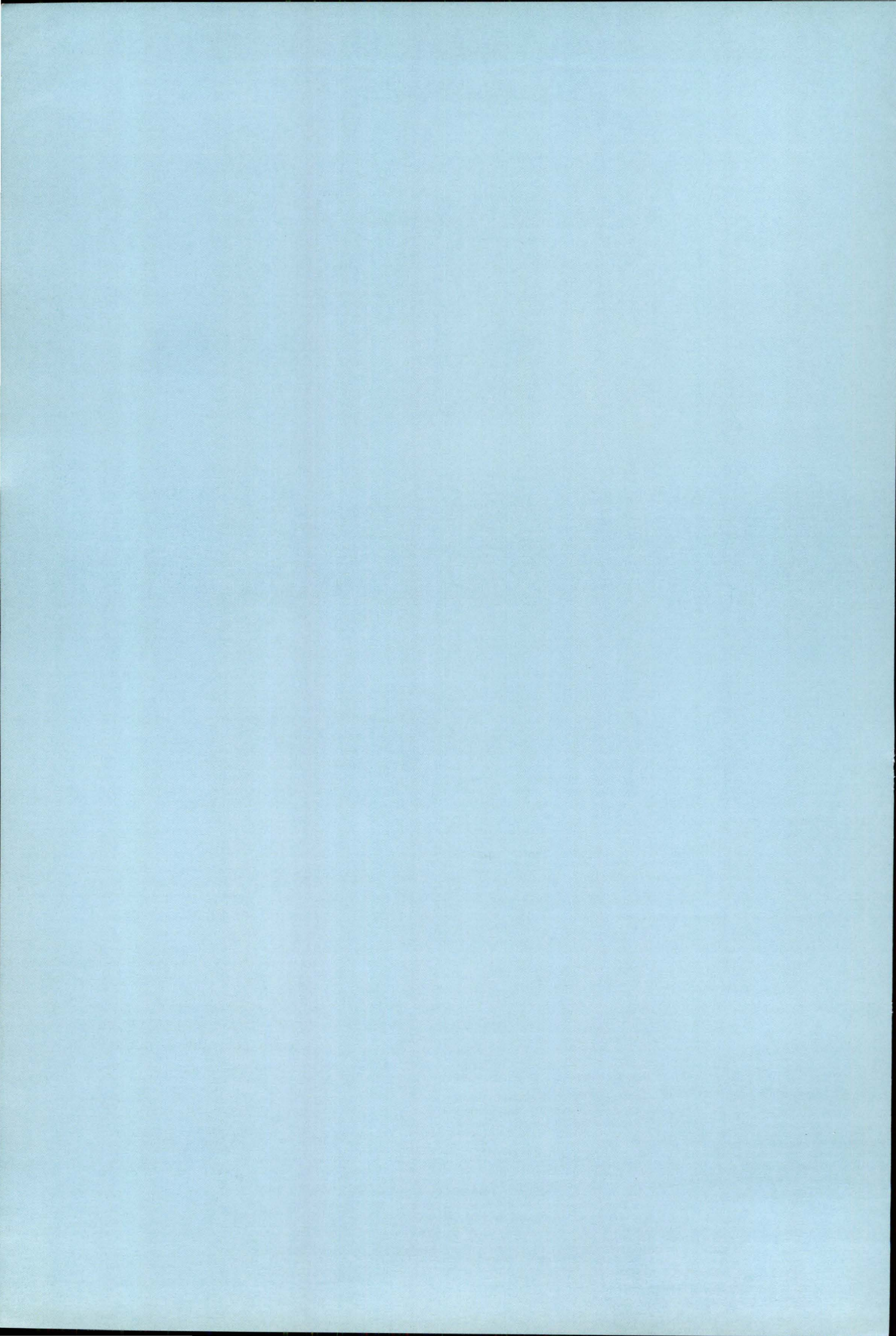
This Report contains significant findings of audit of Receipts and Expenditure of major Revenue earning departments under Revenue Sector conducted under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The instances mentioned in this Report are those which came to notice in the course of test audit during the year 2014-15 as well as those which came to notice in earlier years, but could not be included in the previous Audit Reports. Instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



Overview



OVERVIEW

This Report contains a Performance Audit on “*Working of Taxation Check Gates in Meghalaya*”, an audit on the theme of “*Deduction of Tax at Source*” and 32 paragraphs relating to under-assessments/ non-realisation /short realisation of penalties, taxes, duties and financial irregularities involving ₹ 353.24 crore, and a Follow Up Report on a previous Performance Audit on “*Transition from Sales Tax to VAT*”. The major findings are mentioned below:

Chapter-I: General

- During the year 2014-15, the revenues raised by the State Government (₹ 1282.50 crore) was 19.95 *per cent* of the total revenue receipts (₹ 6428.27 crore). The balance 80.05 *per cent* of receipts during 2014-15 comprised of State's share of divisible taxes and duties amounting to ₹ 1381.69 crore and grants-in-aid from Government of India amounting to ₹ 3764.08 crore.

Paragraph 1.1

- 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 2014-15 revealed under assessments/short/non-levy/loss of revenue amounting to ₹ 625.26 crore in 331 cases. During the year, the departments accepted under assessments/short/non levy/loss of revenue of ₹ 157.23 crore in 141 cases pointed out in 2014-15, and recovered ₹ 0.03 crore.

Paragraph 1.10.1

Chapter-II: Taxes on Sale, Trade, *etc.*

- A Performance Audit on “*Working of Taxation Check Gates in Meghalaya*” revealed the following irregularities:

There was disproportionate distribution of staff vs vehicles' movement in the check gates. During the last six years, not a single manpower need analysis was undertaken by Taxation Department in order to ascertain the actual requirements of the check gates *vis-à-vis* the volume of workload.

Para 2.4.8.1

No records were available at the check gates to ensure that physical verification of vehicles was done as per the norms. There was lack of monitoring to ensure that prescribed norms for inspection of vehicles as fixed was followed by all check gates. Infrastructural facilities for inspection of vehicles were also lacking considerably at the check gates.

Para 2.4.8.2

Failure to effectively monitor movement of overloaded vehicles resulted in movement of 76,214 MT of excess load of coal and 53,364 MT of excess load of limestone through the check gates which resulted in loss of revenue of ₹ 12.84 crore to the State due

to additional security (in the form of advance tax) and penalty not being realised.

Para 2.4.8.3

Between 2009-10 and 2013-14, two taxation check gates detected 26,762 offence cases on which composition fee of ₹ 29.80 lakh only was realised as against ₹ 13.38 crore as per the provision of the MVAT Act.

Para 2.4.8.5

Most of the check gates were housed in dilapidated structures which were not suitable for storage and use of IT equipment, records and registers. Only two gates i.e., Umkiang, and Byrnihat were functional in respect of online data recording. Absence of proper infrastructure created a hindrance in effective discharge of duties by the officials.

Para 2.4.8.10

Absence of a check gate at the last exit point of the National Highway rendered the objective of setting up of a check gate at Byrnihat futile as the Department had no control over the import of taxable goods into the State by dealers situated in the areas between Byrnihat and Khanapara.

Para 2.4.8.11

The Department had not prescribed any norms for periodic inspection of check gates by supervisory officers. Three most important check gates (Byrnihat, Dainadubi and Umkiang) cumulatively reported only 4 inspections (6 per cent) during the last six years with not a single inspection at the Commissioner of Taxes level.

Para 2.4.9.2

➤ An audit on the theme of "Deduction of Tax at Source" revealed the following irregularities:

Out of seven departments test checked by audit, VAT of ₹ 7.98 crore was not deducted/ short deducted by the DDOs from 670 contractors' bills. Further, failure of the departments to deduct VAT at source from the bills of the contractors and also non-submission of details of works to the respective STs resulted in evasion of VAT of ₹ 1.68 crore by the contractors.

Para 2.5.7.1

Decision of the departments to award works to dealers/ contractors who were not registered in the State resulted in loss of revenue of ₹ 18.80 crore to the State.

Para 2.5.7.2

Wrong computation of taxable turnover by the DDO from the contractors' bills resulted in loss of revenue of ₹ 15.24 crore to the State and undue benefit was given to the contractors to that extent.

Para 2.5.7.3 A

Due to incorrect application of rate of works contract by the DDO, there was short-realisation of VAT of ₹ 2.54 crore.

Para 2.5.7.4

Undue benefit of ₹ 37.81 crore was extended to a contractor by the ST due to incorrect application of rate of VAT on works contract and unrealistic assessment of taxable turnover.

Para 2.5.9.1

Internal control mechanism was weak as was evident from the fact that there was no regular conduct of trainings, seminars and workshops on TDS and also failure of the Taxation Department to impose penalties against erring departments for non- deduction of TDS.

Para 2.5.8

Transaction Audit

➤ Failure to carry out timely assessment allowed a dealer to escape the liability to pay tax amounting to ₹ 0.08 crore on which penalty of ₹ 0.16 crore and interest of ₹ 0.28 crore was not levied.

Paragraph 2.6

➤ A dealer fraudulently claimed ITC of ₹ 3.84 crore on which penalty of ₹ 7.68 crore and interest amounting to ₹ 5 crore was not realised.

Paragraph 2.7

➤ Failure of the Superintendent of Taxes to timely assess a dealer resulted in loss of revenue due to underassessment of tax amounting to ₹ 4.82 crore due to acceptance of fake declaration forms on which penalty of ₹ 9.64 crore and interest amounting to ₹ 7.76 crore was not levied.

Paragraph 2.8

➤ A dealer concealed purchase of ₹ 42.79 crore and evaded tax of ₹ 6.37 crore on which penalty of ₹ 9.56 crore and interest amounting to ₹ 2.93 crore was not levied.

Paragraph 2.9

➤ Failure of the ST to assess the liability of electricity duty on MeECL resulted in electricity duty amounting to ₹ 13.74 crore not being realised on which penalty of ₹ 54.96 crore was not levied.

Paragraph 2.10

➤ An industrial unit irregularly claimed excess remission on sale of ₹ 2.20 crore resulting in short payment of tax of ₹ 0.11 crore on which penalty of ₹ 0.22 crore and interest of ₹ 0.05 crore was not levied.

Paragraph 2.11

➤ Allowance of incorrect rate of tax by the ST and furnishing of revised returns by the dealer with reduced turnover resulted in underassessment of tax amounting to ₹ 0.10 crore on which penalty of ₹ 0.20 crore and interest of ₹ 0.05 crore was not levied.

Paragraph 2.12

- A dealer belatedly paid the tax for which ₹ 0.37 crore was leviable as interest against which ₹ 0.01 crore was levied thereby resulting in short levy of interest amounting to ₹ 0.36 crore.

Paragraph 2.13

- A dealer concealed turnover of ₹ 37.45 crore on sale of coal and evaded tax of ₹ 1.50 crore on which penalty of ₹ 3 crore and interest of ₹ 0.33 crore was not levied.

Paragraph 2.14

- There was under assessment of tax amounting to ₹ 0.86 crore due to allowance of concessional rate of tax on inter-State sale of coal not supported by 'C' forms on which penalty of ₹ 1.71 crore and interest of ₹ 0.19 crore was not levied.

Paragraph 2.15

Chapter-III: State Excise

- Three bottling plants fraudulently concealed 2.44 lakh BL of ENA and evaded excise duty of ₹ 3.14 crore.

Paragraph 3.4

- Short levy of *ad-valorem* duty on cost price resulted in short-realisation of excise duty amounting to ₹ 0.15 crore.

Paragraph 3.5

- Forty-four IMFL retail licencees failed to renew their licences resulting in revenue amounting to ₹ 0.36 crore not being realised.

Paragraph 3.6

- Cancellation of six IMFL/Bar licences without realisation of licence fees led to loss of revenue amounting to ₹ 0.07 crore.

Paragraph 3.7

- The Department failed to realise Security Deposit of ₹ 0.34 crore from 30 companies/Bonded Warehouses/distilleries/IMFL licencees.

Paragraph 3.8

- Twenty-five distilleries/companies failed to register the brand names of 115 brands resulting in revenue amounting to ₹ 0.52 crore not being realised.

Paragraph 3.9

Chapter-IV: Motor Vehicle Receipts

➤ Due to undue benefit granted to three weighbridge lessees and leases of six other weighbridges not being renewed, there was a loss of revenue of ₹ 6.90 crore.

Paragraph 4.4

➤ The Enforcement Branch failed to detect movement of 45753 trucks carrying load in excess of the permissible limit resulting in short realisation of fine amounting to ₹ 28.35 crore.

Paragraph 4.5

➤ Irregular registration of commercial trucks as private carriers resulted in short realisation of road tax amounting to ₹ 1.06 crore.

Paragraph 4.6

➤ Two DTOs realised ₹ 0.48 crore, as fine from 2415 trucks carrying excess load, instead of ₹ 0.72 crore resulting in short levy of fine of ₹ 0.24 crore.

Paragraph 4.7

➤ Registration certificates of 22717 private vehicles were not renewed, resulting in registration fees amounting to ₹ 4.46 crore not being realised, on which, penalty amounting to ₹ 4.54 crore was also leviable.

Paragraph 4.8

Chapter-V: Forest & Environment

[Part-A: Revenue Receipts]

➤ Failure of the DFO to take timely action against a Forest Beat office resulted in loss of revenue due to short realisation of export fee amounting to ₹ 0.22 crore.

Paragraph 5.4

➤ There was short realisation of revenue amounting to ₹ 2.37 crore by the user departments.

Paragraph 5.5

➤ Due to lack of co-ordination between Government Departments, 34 exporters/companies concealed 3.77 lakh MT quantity of limestone actually consumed/exported thereby resulting in evasion of royalty of ₹ 1.91 crore.

Paragraph 5.6

➤ Inaction of the Forest Department resulted in irregular diversion of 642.87 ha of forest lands by six cement companies and Net Present Value amounting to ₹ 42.24 crore not being realised.

Paragraph 5.7

- Licences were granted to 44 applicants for operation of saw/veneer mills on which ₹ 0.17 crore was realisable against which, the Department realised ₹ 0.06 crore resulting in short realisation of licence fees amounting to ₹ 0.11 crore.

Paragraph 5.8

[Part-B: Expenditure]

- Unauthorised release of funds indicating arbitrary decisions of the then CEO of the Meghalaya State Medicinal Plants Board resulted in fraudulent financial transactions of ₹ 2.85 crore in the implementation of several plantation schemes.

Paragraph 5.9

- Land acquisition proceedings of the Mawpalai Afforestation Area (1.78 sq.km) were flawed and consequently, an amount of ₹ 8 crore (80 per cent of compensation) was fraudulently released to the village representative for a fictitious land acquisition when actually the land was and continues to be in the possession of the Soil & Water Conservation Department, Government of Meghalaya.

Paragraph 5.10

Chapter-VI: Mining Receipts

- Inaction of the Department resulted in royalty amounting to ₹ 62.14 crore on 9.21 lakh MT of coal procured by eight cement manufacturing units not being realised.

Paragraph 6.4

- There was a short-realisation of royalty amounting to ₹ 0.42 crore by a checkgate due to under reporting of 7142 MT of excess load of coal on which penalty of ₹ 0.11 crore was also leviable.

Paragraph 6.5

- Under reporting of 1.77 lakh MT of limestone exported to Bangladesh resulted in short-realisation of cess of ₹ 0.35 crore.

Paragraph 6.6

- Interest amounting to ₹ 0.45 crore was not realised from two lessees for belated payment of dues.

Paragraph 6.7

Chapter-VII: Follow Up Audit

- A Follow Up was done on the recommendations made in the Performance Audit on “Transition from Sales Tax to VAT in Meghalaya” which was featured in the Audit Report for the year ended 31 March 2009. Some of the major findings of the Follow Up Report are as follows:

Out of the 26 audit/PAC recommendations, the Department accepted 21 recommendations, out of which, the Department had completed action on eight recommendations while in case of five, the Department had initiated action but it was yet to be completed. In case of remaining eight recommendations, the Department had failed to take any action or partially taken action despite accepting them.

Para 7.1.4

The Department stated that three checkgates were computerised while steps were being taken for setting up of integrated checkgates. Audit verification, however, revealed that only two checkgates were fully interlinked while in case of the third checkgate, the modem was damaged and the same had not been replaced.

Para 7.1.4.2

It was observed that that the Taxation Department was yet to create a database of dubious/risky dealers. This resulted in continued loss of revenue due to evasion of tax by unscrupulous dealers as is being pointed out by audit year after year.

Para 7.1.4.7

It was observed that the number of cases scrutinised was very low compared to the number of dealers. However, the Department did not prescribe targets for completion of scrutiny by STs stating that the same was not feasible.

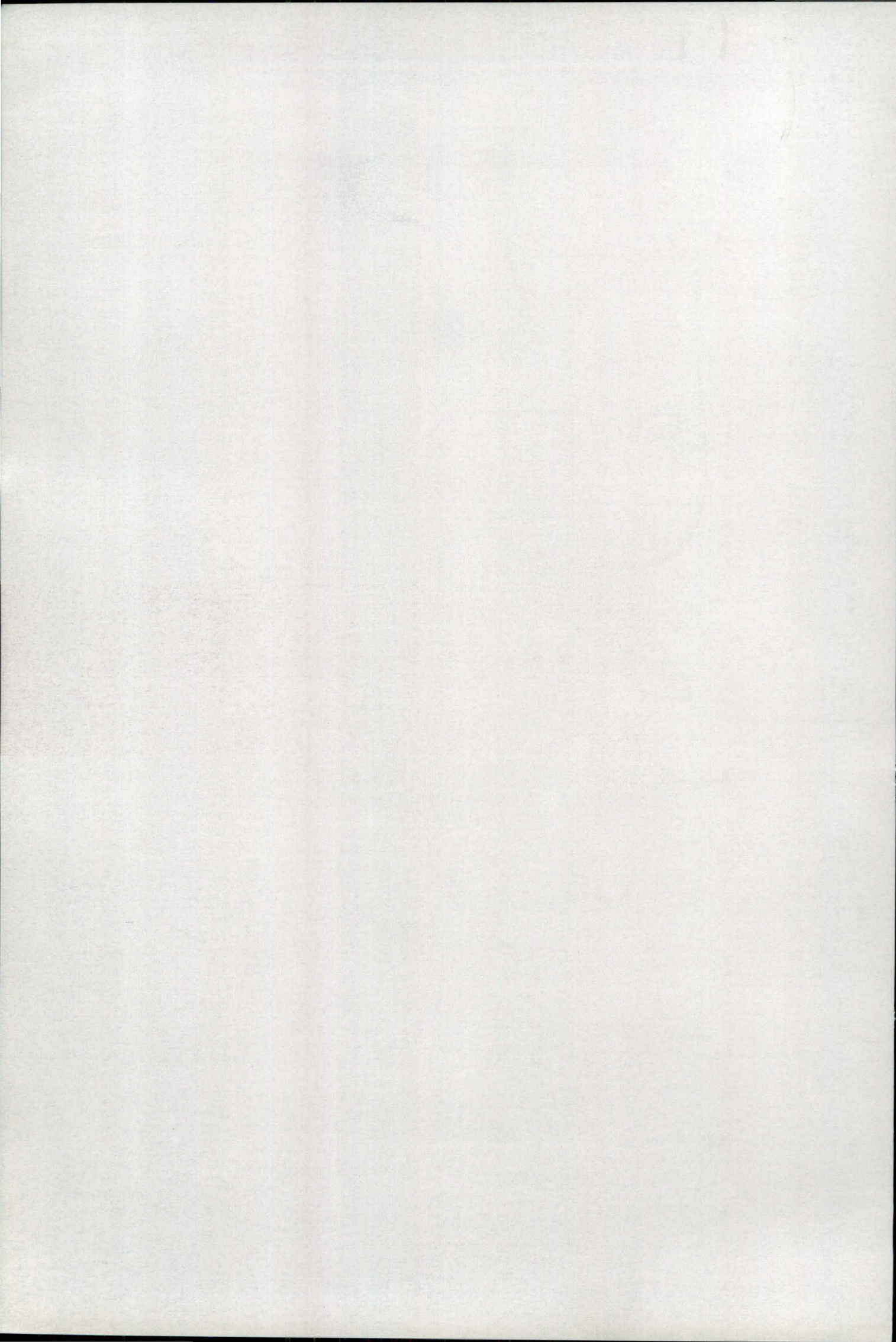
Para 7.1.4.10

The Department had prepared the VAT Manual for audit assessments. However, the Department did not fix a criteria for selection of dealers to provide for flexibility while making such selections.

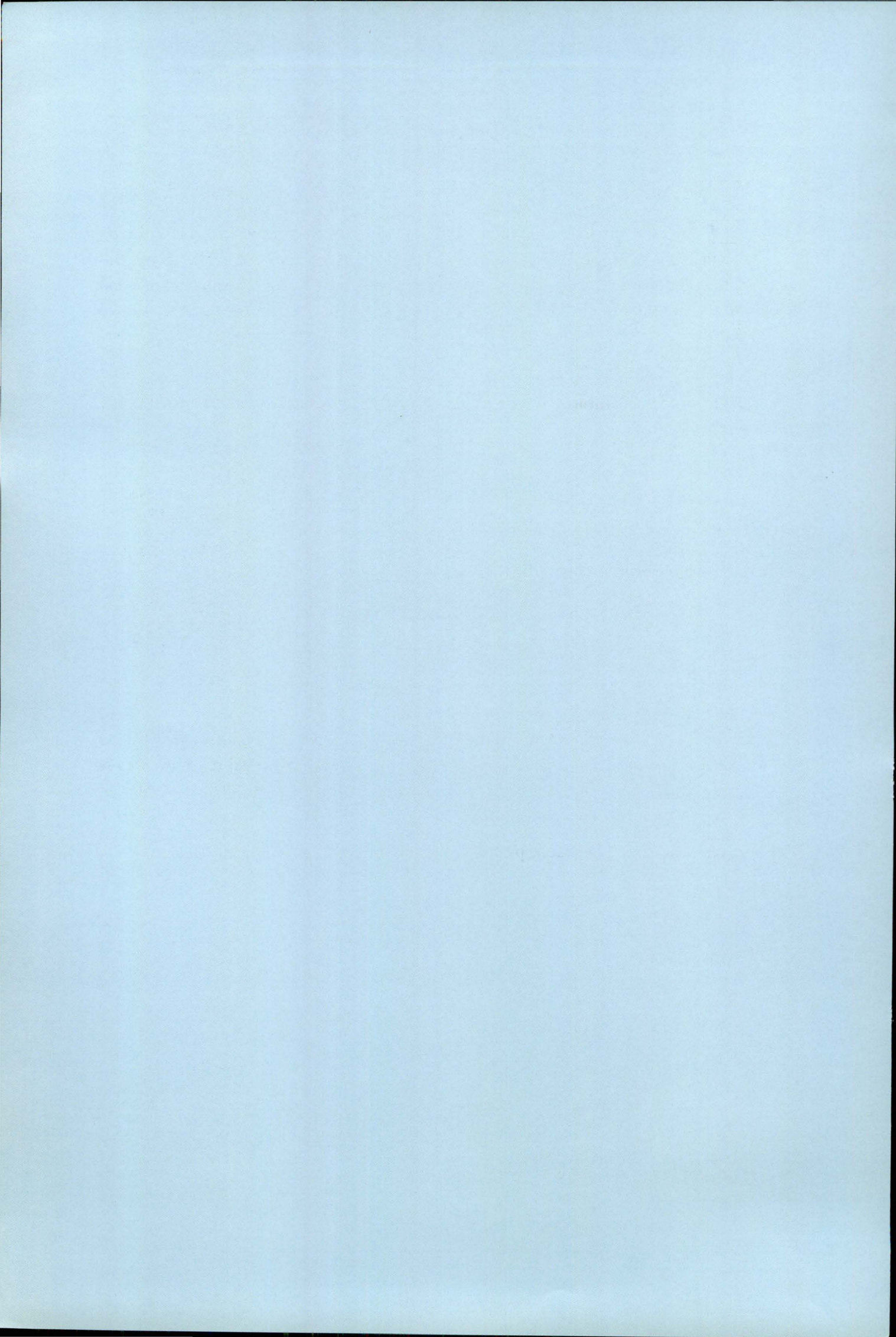
Para 7.1.4.12

It was observed that the Taxation Department had not prescribed any mechanism for cross-verification of dealers' records with other departments such as Income Tax, Central Excise *etc.*, in order to detect evasion of tax. Although the Department had issued instructions to the STs to cross-verify the records of doubtful dealers with the Central departments, the STs were yet to comply with the instructions.

Para 7.1.4.16



CHAPTER-I
GENERAL



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 2014-15, 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 1.1

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15 ¹
1.	Revenues raised by the State Government					
	• Tax revenue	571.45	697.54	847.72	949.29	939.21
	• Non-tax revenue	301.69	368.24	484.94	598.15	343.29
	Total	873.14	1,065.78	1,332.66	1,547.44	1,282.50
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	901.65	1,044.19	1,192.45	1,301.96	1,381.69
	• Grants-in-aid	2,491.23	2,544.50	3,011.22	3,417.29	3,764.08
	Total	3,392.88	3,588.69	4,203.67	4,719.25	5,145.77
3.	Total revenue receipts of the State Government (1 and 2)	4,266.02	4,654.47	5,532.33	6,266.69	6,428.27
4.	Percentage of 1 to 3	20.47	22.90	24.10	24.69	19.95

(Source: Finance Accounts)

The above table indicates that during the year 2014-15, the revenues raised by the State Government (₹ 1282.50 crore) was 19.95 per cent of the total revenue receipts as against 24.69 per cent in the preceding year. The balance 80.05 per cent of receipts during 2014-15 was from the Government of India.

1.1.2 The following table presents the details of tax revenues raised during the period 2010-11 to 2014-15:

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 2014-15. 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 1.2 (Details of Tax revenue)

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Taxes on sales, trade etc.	324.16	412.88	418.20	512.50	517.17	631.12	622.83	723.65	914.90	726.20	(+) 46.89	(+) 0.35
2.	State Excise	100.19	104.50	124.42	131.50	143.08	153.01	161.69	162.66	205.16	151.14	(+) 26.88	(-) 7.08
3.	Motor Vehicles Tax	15.64	19.19	18.59	31.12	31.62	35.82	38.87	36.71	50.00	39.38	(+) 28.63	(+) 7.27
4.	Stamps duty	8.60	10.76	12.29	9.08	12.44	10.31	14.06	9.77	16.66	9.90	(+) 18.49	(+) 1.33
5.	Land revenue	2.99	17.11	3.23	2.40	3.59	6.27	4.02	3.47	4.22	0.08	(+) 4.98	(-) 97.69
6.	Taxes and duties on electricity	1.26	0.26	1.36	0.87	1.37	0.93	1.37	1.89	1.72	0.81	(+) 25.54	(-) 57.14
7.	Others	6.99	6.75	7.75	10.07	8.56	10.26	9.67	11.14	13.65	11.70	(+) 41.16	(+) 5.03
	TOTAL	459.83	571.45	585.84	697.54	717.83	847.72	852.51	949.29	1206.31	939.21	(+) 46.13	(-) 1.06

(Source: Finance Accounts)

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

Taxes and duties on electricity: The decrease was due to decrease in taxes on consumption and sales of electricity.

Taxes on vehicles: The increase was due to increase in receipts under the State Motor Vehicles Taxation Act.

Land revenue: The decrease was due to the decrease of receipts under land revenue tax and other receipts.

State Excise: The decrease was due to decrease in receipts under foreign liquor and spirits.

Taxes on Sales, Trade: The increase was due to increase in tax on sale of motor spirits and lubricants and receipts under Central Sales Tax.

1.1.3 The details of the non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table 1.3:**

Table 1.3 (Non-Tax Revenue)

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Power	2.00	0.33	2.00	0.00	2.00	1.36	2.00	0.64	2.00	0.00	0.00	(-) 100
2.	Interest receipts	12.24	24.72	23.64	27.13	26.01	25.38	27.45	33.57	31.61	37.73	(+) 15.15	(+) 12.39
3.	Forestry and wildlife	22.77	22.05	25.05	26.03	27.56	30.87	35.51	60.12	40.83	71.99	(+) 14.98	(+) 19.74
4.	Public works	7.59	12.71	8.20	17.02	9.02	43.43	9.41	12.22	10.35	6.28	(+) 9.99	(-) 48.60
5.	Miscellaneous general services	10.80	0.17	11.66	9.79	12.44	0.37	14.93	1.05	16.53	0.02	(+) 10.72	(-) 98.10
6.	Other administrative services	5.45	8.01	5.88	4.84	6.31	3.36	4.97	7.85	8.11	6.13	(+) 63.17	(-) 21.91

7.	Police	6.12	2.44	6.61	3.22	6.88	2.89	7.64	5.92	8.41	3.85	(+) 10.08	(-) 34.97
8.	Medical and public health	1.19	0.69	1.36	1.35	1.50	1.43	1.62	1.99	1.98	2.72	(+) 22.22	(+) 36.68
9.	Co-operation	0.85	0.08	0.94	0.20	1.01	0.05	1.08	0.06	1.11	0.05	(+) 2.77	(-) 16.66
10.	Other non-tax receipts	192.21	230.49	306.00	278.66	377.17	375.80	411.98	474.73	558.53	214.52	(+) 35.57	(-) 54.81
TOTAL		261.22	301.69	391.34	368.24	469.90	484.94	516.59	598.15	679.46	343.29	(+) 31.53	(-) 42.61

(Source: Finance Accounts)

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 under some principal heads of revenue amounted to ₹ 30.54 crore out of which ₹ 16.58 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 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Department
1	0040-Taxes on Sale, Trade etc.	30.23	11.31	The departments did not furnish reasons for arrears.
2	0039- State Excise	0.31	0.31	
3	0406- Forestry and Wildlife	--	--	
4	0029- Land Revenue	--	--	
Total		30.54	11.62	

It would be seen from the table that recovery of ₹ 30.54 crore was pending against four of the principal Heads of revenue which was two *per cent* of the State's own revenue collection for 2014-15. Revenue amounting to ₹ 11.62 crore (38.05 *per cent* of the total revenue arrears) was pending for recovery for more than five years which indicated that the chances of recovery was remote and also pointed to systemic weakness in the revenue recovery mechanism of the State Government.

1.3 Arrears of assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department is shown below in Table 1.5.

Table 1.5

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Total assessments due	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (Col. 5 to 4)
0040- Taxes on sales, trade, etc.	42091	16545	58636	9931	48705	17

It may be seen from the above that although a good number of cases were disposed during 2014-15, the percentage of disposal compared to the cases due for assessment was only 17 *per cent* which had resulted in piling up of arrears of assessment.

Pendency in assessments will result in non/short realisation of Government revenues and may result in 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 2014-15 are given in **Table 1.6**.

Table 1.6

Sl. No.	Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	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 2015
1	0040	586	--	586	--	--	586

(₹ in crore)

(Source: Information furnished by the Department)

The other departments did not inform the position of tax evasion cases despite being requested (April 2015 and July 2015).

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2014-15 as reported by the Department is given in **Table 1.7**.

Table 1.7

Sl. No.	Particulars	Sales Tax/VAT		State Excise	
		No. of cases	Amount (in ₹)	No. of cases	Amount
1	Claims outstanding at the beginning of the year	02	1072000	NIL	
2	Claims received during the year	03	859209		
3	Refunds made during the year	03	859209		
4	Balance outstanding at the end of the year	02	1072000		

(Source: Information furnished by the departments)

The Meghalaya Value Added Tax Act provides for the payment of interest in case of refund at the rate of 8 per cent per annum 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 1.6.7 discuss the response of the departments/Governments to audit.

1.6.1 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 upto March 2015 disclosed that 999 paragraphs involving money value of ₹ 1889.89 crore relating to 254 IRs remained outstanding at the end of June 2015 as mentioned in **Table 1.8**.

Table 1.8 (Position of outstanding IRs)

	June 2012	June 2013	June 2014	June 2015
Number of outstanding IRs	181	174	214	254
Number of outstanding audit observations	747	676	749	999
Amount involved (₹ in crore)	1300.75	1235.76	1568.32	1889.89

Department-wise details of IRs, audit observations pending settlement as on 30 June 2015 and the amounts involved are mentioned in **Table 1.9**.

Table 1.9 (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.	81	398	515.13
		(b) State Excise	41	153	40.37
		(c) Stamps & Registration	20	31	2.00
2.	Transport	Taxes on motor vehicles	60	185	598.17
3.	Mines and Minerals	Non-ferrous mining and metallurgical industries	24	88	653.31
4.	Environment and Forests	Forestry and wild life	28	144	80.91
Total			254	999	1889.89

In respect of 19 IRs issued during 2014-15, 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 September 2015. 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.

1.6.2 Departmental Audit Committee Meetings

The Government has set up audit committees to monitor and expedite the process of settlement of IRs and paragraphs contained in the IRs.

During the year, the State Government failed to hold even a single Audit Committee Meeting (ACM) in respect of any of the departments despite being requested (September 2014) and (November 2014).

Considering the fact that large number of IRs (254) and paragraphs (999) were pending as on 30 June 2015, the Government should make serious efforts to hold ACMs at regular intervals, especially in respect of such Departments where the number of pending IRs and paragraphs are high.

1.6.3 Position of Inspection Reports

The summarised position of Inspection Reports (IRs) issued during the year 2014-15 including those of previous four years and their status as on 01 April 2015 are tabulated below:

Table 1.10 (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
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	1,055.12	177	693	1,239.79
2013-14	177	693	1,239.79	50	265	644.90	13	183	198.13	214	775	1,686.56
2014-15	214	775	1,686.56	52	331	625.26	01	126	1,274.67	265	980	1,037.15

It would be seen from the above table that number of outstanding IRs which was highest in 2010-11 has come down over the years but still more efforts are needed to be made by the departments to take action in view of the audit observations including holding frequent Audit Committee Meetings so that the number of IRs and paragraphs can come down further.

1.6.4 Non-production of records to audit for scrutiny

The programme of local audit of Tax Revenue/Non-tax revenue offices is drawn up sufficiently and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2014-15, not a single case relating to non-cooperation with the audit teams or non-production of records to the audit teams were reported which indicated that cordial relation existed between the audited entities and audit.

1.6.5 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 two audit paragraphs, a Performance Audit, an Audit on a theme and a Follow-Up Report proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2015, Government of Meghalaya were forwarded to the Secretaries of the respective departments between June 2015 and November 2015. Out of these, reply was furnished only in respect of the Audit of the theme, the Follow-Up Report, and one audit paragraph upto November 2015. The remaining thirty one paragraphs and the Performance Audit have been included without the response of the Government.

The lack of response of the departments to the draft audit paragraphs is a matter of concern and the Government may address this issue at the earliest.

1.6.6 Follow up on Audit Reports

The internal working system of the Public Accounts Committee, 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 and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Two hundred and fifty nine paragraphs (including Performance Audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Meghalaya for the years ended 31 March 2009, 2010, 2011, 2012, 2013 and 2014 were placed before the State Legislature between May 2010 and March 2015. The *suo motu* explanatory notes from the concerned departments are awaited in respect of 157 of the paragraphs (November 2015).

The PAC discussed 35 selected paragraphs pertaining to the Audit Reports for the years from 2008-09, 2009-10 and 2013-14 and its recommendations on 14 paragraphs were incorporated in their Reports (2008-09 to 2009-10). However, Action Taken Notes (ATNs) have not been received in respect of 14 recommendations of 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

1.6.7 Compliance with earlier Audit Reports

During the years from 2010-11 to 2014-15, the departments/Government accepted audit observation involving revenue implication of ₹ 2660.83 crore (out of the total money value of ₹ 3813.66 crore) of which only ₹ 173.26 crore had been recovered till March 2015 as mentioned in **Table 1.12**.

Table 1.12 (Compliance with earlier Audit Reports)

Year of Audit Report	Total money value	Accepted money value	Amount recovered during the year
2010-11	1,836.44	1,587.03	172.99
2011-12	444.93	178.06	0.27
2012-13	888.40	681.81	--
2013-14	186.44	46.21	--
2014-15	457.45	167.72	--
Total	3,813.66	2,660.83	173.26

(₹ in crore)

The amount recovered was thus only 6.5 per cent of the accepted amount while the Government/departments have accepted 69.77 per cent of the cases 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 system for addressing the issues highlighted in the IRs/Audit Reports by the departments/Governments, the action taken on the paragraphs and performance audits included in the Audit Reports of the last five years by the **State Excise Department** has been evaluated and results 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 as on September 2015 are shown below:

Table 1.13 (Position of Inspection Reports)

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
2010-11	47	252	64.17	21	34	39.33	44	213	49.84	24	73	53.66
2011-12	24	73	53.66	16	39	42.93	17	47	49.99	23	65	46.60
2012-13	23	65	46.60	6	24	3.09	4	26	39.28	25	66	10.41
2013-14	25	66	10.41	5	36	26.36	--	10	16.53	30	92	20.24
2014-15	30	92	20.24	21	150	316.59	01	35	75.37	50	207	261.46

(₹ in crore)

Thus, during the last five year period, the closing balance of IRs and paragraphs has been more or less at the same level due to a high number of paragraphs being cleared

every year which indicates that positive steps were being taken by the Department to address audit observations.

1.7.2 Recovery of accepted cases

The position of paragraphs pertaining to the State Excise Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered during 2014-15 are mentioned below:

Table 1.14 (Status of recovery of accepted cases)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	(₹ in crore)
					Amount recovered during the year (2014-15)
2009-10	8	4.82	2	0.39	0.12
2010-11	4	0.99	--	0	--
2011-12	4	0.90	4	0.90	0.27
2012-13	6	3.46	--	0	--
2013-14	4	43.65	1	43.08	--
Total	26	53.82	7	44.37	0.39

During the last five years, the Department accepted seven out of the 26 audit paragraphs (including one PA). However, against the accepted cases involving an amount of ₹ 44.37 crore, the Department recovered only ₹ 0.39 crore which is less than one *per cent* of the accepted cases. This is a matter of concern and needs to be looked into by the Department.

1.7.3 Action taken on the recommendations of Audit

A PA on “*Working of Bottling Plants and Distilleries*” pertaining to the State Excise Department and covering the period from 2008-09 to 2012-13 was featured in the Audit Report for the year ended 31 March 2014. The PA made 20 recommendations to the Department.

During the year 2014-15, the Excise Department failed to furnish a single reply in respect of the action taken on the recommendations.

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* 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 2014-15, out of 124 auditable units, 55 units were audited. Besides, one Performance Audit on “*Working of Taxation Checkgates in Meghalaya*” was also conducted.

1.9 Results of audit

1.9.1 Position of local audits conducted during the year 2014-15

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 2014-15 revealed under-assessments/short/non-levy/loss of revenue amounting to ₹ 625.26 crore in 331 cases. During the year, the Departments accepted under assessments/short/non levy/loss of revenue of ₹ 157.23 crore in 141 cases pointed out in 2014-15 and recovered ₹ 0.03 crore².

1.10 This Report

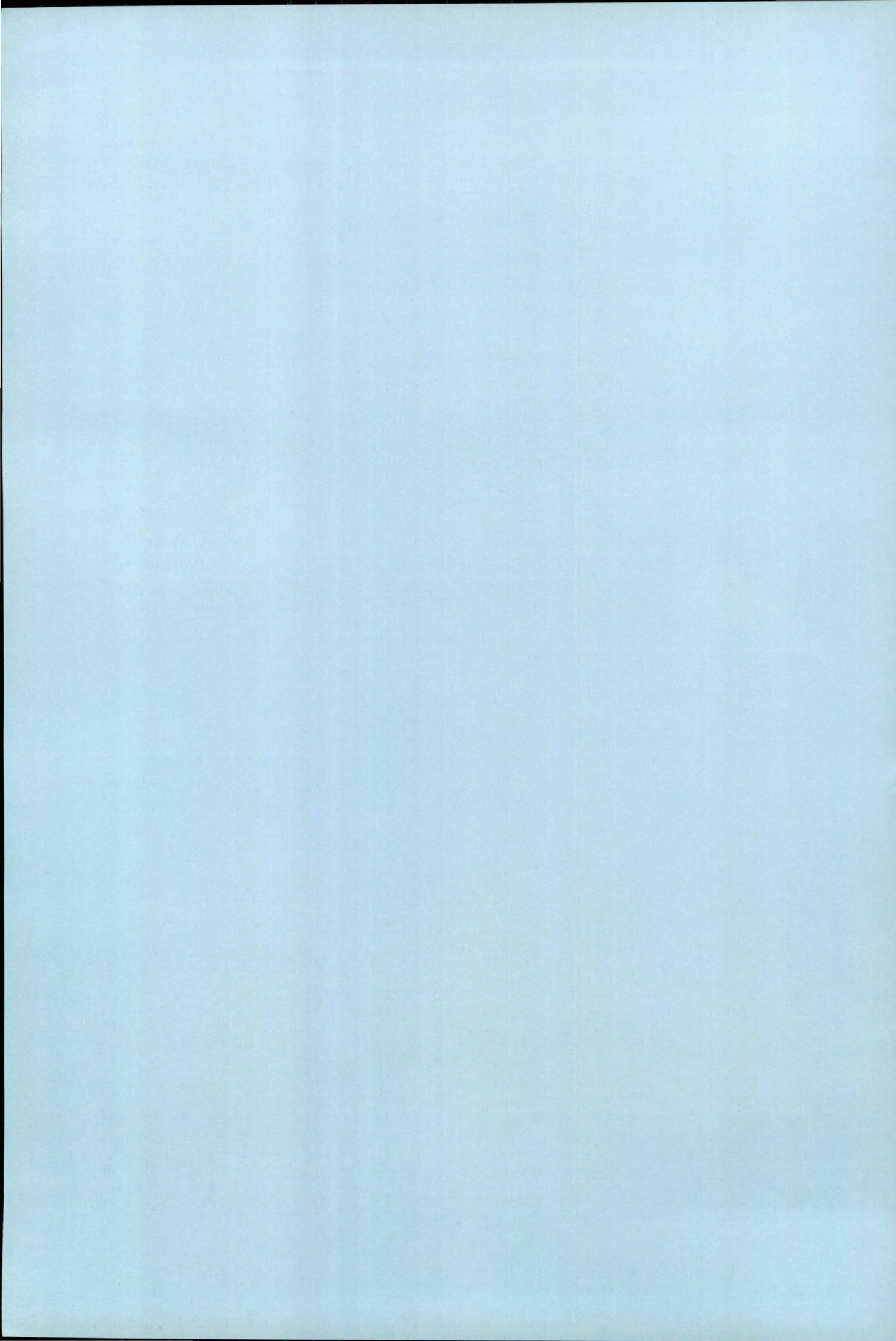
This Report contains 32 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports), a Performance Audit on “*Working of Taxation Checkgates in Meghalaya*”, one Audit on the theme “*Deduction of Tax at Source*” involving ₹ 353.24 crore and a Follow-up Audit on the audit recommendations pertaining to the Performance Audit on “*Transition from Sales Tax to VAT*” (Report of the Comptroller and Auditor General of India for the year ended 31 March 2009).

The departments/Government have accepted audit observations involving ₹ 73.36 crore but no recovery was intimated. The replies in the remaining cases have not been received (November 2015). These are discussed in the succeeding Chapters.

² The recovery pertains to only those cases pointed out in the year 2014-15. The actual recovery during the year 2014-15 was higher.

CHAPTER-II

TAXES ON SALE, TRADE ETC



CHAPTER-II: TAXES ON SALE, TRADE, ETC.

2.1 Tax Administration

Commercial Taxes Department is the most important revenue-earning Department of the State. The Additional Chief Secretary to the Government of Meghalaya, Excise, Registration, Taxation and Stamps (ERTS) Department is in overall charge of the Sales Tax Department at the Government level. The Commissioner of Taxes (COT) is the administrative head of the Department. He is assisted by a Deputy Commissioner of Taxes (DCT) and three Assistant Commissioners of Taxes (ACT). One of the ACT, functions as the Appellate Authority. At the district level, 17 Superintendents of Taxes (ST) have been entrusted with the work of registration, scrutiny of returns, collection of taxes, levy of interest and penalty, issue of road permits/declaration forms, enforcement and supervision of check gates *etc.* The collection of tax is governed by the provisions of the Central Sales Tax (CST) Act, 1956, the CST Rules, 1957, the Meghalaya Value Added Tax (MVAT) Act, 2003, the MVAT Rules, 2005 and the Meghalaya (Sales of Petroleum and Petroleum Products including Motor Spirit and Lubricants Taxation) (MSL) Act. With the introduction of VAT on 1 May 2005, the Meghalaya Sales Tax (MST) Act and the Meghalaya Finance (Sales Tax) (MFST) Act were in place, were repealed.

2.2 Internal audit

The Sales Tax Department has no separate Internal Audit Wing (IAW). Despite the same being pointed out in the Performance Audits carried out from time to time, no action has been taken by the Department to create an IAW to monitor the working of the Department. In the absence of a separate IAW, the Department solely relies upon the audit carried out by the Accountant General.

Recommendation: *The Department may look into the possibility of creating an Internal Audit Wing to effectively monitor its functioning.*

2.3 Results of Audit

Test check of the records of 18 units relating to VAT during 2014-15 revealed under-assessment of tax and other irregularities involving ₹ 113.97 crore in 133 cases which fall under the following categories:

Table 2.1

Sl. No.	Category	Number of cases	(₹ in crore)
			Amount
1.	Non/Short realisation of tax	05	0.19
2.	Evasion of tax	01	0.12
3.	Loss of revenue	09	18.90
4.	Other irregularities	118	94.76
	Total	133	113.97

During the course of the year, the Department accepted under assessments and other deficiencies of ₹ 55.27 crore in 55 cases. An amount of ₹ 0.33 crore was realised in 06 cases during the year 2014-15.

A PA on “Working of Taxation Check Gates in Meghalaya having financial impact of ₹ 63.06 crore, an Audit on the theme “Deduction of tax at source” having financial impact of ₹ 70.51 crore and few illustrative cases having financial impact of ₹ 48.37 crore, in terms of under-assessment/short levy/non-levy of tax and other provisions of the Acts are discussed in the succeeding paragraphs.

2.4 Performance Audit on “Working of Taxation Check Gates in Meghalaya”

Highlights

➤ There was disproportionate distribution of staff vs vehicles’ movement in the check gates. During the last six years, not a single manpower need analysis was undertaken by Taxation Department in order to ascertain the actual requirements of the check gates vis-à-vis the volume of workload.

Para 2.4.8.1

➤ No records were available at the check gates to ensure that physical verification of vehicles was done as per the norms. There was lack of monitoring to ensure that prescribed norms for inspection of vehicles as fixed was followed by all check gates. Infrastructural facilities for inspection of vehicles were also lacking considerably at all the checkgates.

Para 2.4.8.2

➤ Failure to effectively monitor movement of overloaded vehicles resulted in movement of 76,214 MT of excess load of coal and 53,364 MT of excess load of limestone through the check gates which resulted in loss of revenue of ₹ 12.84 crore to the State due to additional security (in the form of advance tax) and penalty not being realised.

Para 2.4.8.3

➤ Between 2009-10 and 2013-14, two taxation check gates detected 26,762 offence cases on which composition fee of ₹ 29.80 lakh only was realised as against ₹ 13.38 crore as per the provision of the MVAT Act.

Para 2.4.8.5

➤ Most of the check gates were housed in dilapidated structures which were not suitable for storage and use of IT equipment, records and registers. Only two gates i.e., Umkiang, and Byrnihat were functional in respect of online data recording. Absence of proper infrastructure created a hindrance in effective discharge of duties by the officials.

Para 2.4.8.10

➤ Absence of a check gate at the last exit point of the National Highway rendered the objective of setting up of a check gate at Byrnihat futile as the Department had no control over the import of taxable goods into the State by dealers situated in the areas between Byrnihat and Khanapara.

Para 2.4.8.11

➤ The Department had not prescribed any norms for periodic inspection of check gates by supervisory officers. Three most important check gates (Byrnihat, Dainadubi and Umkiang) cumulatively reported only 4 inspections (6 per cent) during the last six years with not a single inspection at the COT level.

Para 2.4.9.2

2.4.1 Introduction

With a view to monitoring the entry and exit of goods to and from Meghalaya in the course of inter State trade and preventing evasion of tax by the dealers of Meghalaya, the State Government is empowered to set up check gates at strategic locations across the State both under the erstwhile Meghalaya Sales Tax Act, and the Meghalaya Value Added Tax (MVAT) Act, 2003.

The State Government has established 19 check gates at strategic locations across the State between August 1979 and December 2011 of which, 12¹ are functional². The check gates with the exception of Byrnihat (which is headed by a Superintendent of Taxes and is an independent office) are headed by Inspectors and are attached to some Superintendent of Tax offices³.

The officers-in-charge of check gates are responsible for inspection of vehicles carrying taxable goods both into and outside Meghalaya by way of inspection of documents such as road permits and other prescribed documents, issuing transit passes in case of vehicles which use Meghalaya as a transit to go to other States and maintaining records of goods being carried by the vehicles/transporters. With the introduction of computerisation in the Taxation Department, the officers-in-charge are also responsible for endorsing the road permits issued online for making real-time data (pertaining to entry of goods) available to the assessing officers in the unit offices. In addition, the officers-in-charge are also empowered to realise additional security (in case of excess carriage of coal and limestone beyond 9 MT) and levy penalty under Section 76 for violation of the provisions of the MVAT Act and Rules.

2.4.2 Organisational setup

The Commissioner of Taxes is the administrative head of the Taxation Department and responsible for monitoring the functioning of the check gates. The COT is assisted by a Deputy Commissioner of Taxes and three Assistant Commissioners of Taxes. At the field level, Superintendent of Taxes (STs)/ Inspectors of Taxes (ITs) assigned with the supervision of the check gates are responsible for efficient management of the check gates. For this purpose, each ST/IT in charge of the check gate is assisted by a team of ITs and checkers for inspection and verification of the documents

¹ **Ri-Bhoi:** (i) Byrnihat (ii) Umsiang (iii) Iew Mawroh (iv) Umling **West Khasi Hills:** (v) Athiabari **East Jaintia Hills:** (vi) Umkiang **West Jaintia Hills:** (vii) Garampani **North Garo Hills** (viii) Bajengdoba (ix) Mendipathar (x) Dainadubi **West Garo Hills:** (xi) Tikrikilla **South West Garo Hills:** (xii) Garobadha

² The other seven were declared non-functional in 1997.

³ (i) Tikrikilla, Bajengdoba & Garobadha – **ST, Tura, Circle-I** (ii) Athiabari – **ST, Nongstoin** (iii) Dainadubi – **ST, Williamnagar** (iv) Umkiang – **ST, Khliehria** (v) Garampani – **ST, Jowai** (vi) Mendipathar – **ST, Williamnagar** (vii) Umsiang & Iew Mawroh – **ST, Nongpoh**

carried by the transporters or vehicles carrying taxable goods, realisation of additional security, compounding of offences and recording of data.

2.4.3 Audit objectives

The Performance Audit (PA) was carried out with a view to ascertaining:

- Whether the provisions of the Acts/Rules governing the functioning of the check gates were adequate to ensure that no lapses occurred in effective management of check gates?
- Whether the check gates were complying with the provisions of the regulatory Acts/Rules/executive orders *etc.* and whether there were leakages of revenue as a result of non-compliance with the Acts/Rules?
- Whether there was adequate co-ordination between the check gates and the unit offices?
- Whether the check gates were equipped with proper infrastructure in terms of space, manpower, location, computerisation, networking *etc.* for efficient discharge of duties?
- Whether the Department had adequate internal controls in terms of supervision by senior management, periodical verification of information from DMR/Forest/Assam check gates, regular transfer of officials *etc.* to ensure that there was no leakage of revenue from the check gates?

2.4.4 Audit Scope & Methodology

The Performance Audit (PA) was conducted during June 2015 to September 2015 covering the period from 2008-09 to 2013-14. The PA covered the review of twelve functional check gates. In addition, Boxirhat and Srirampur check gates located on the West Bengal-Assam border being the main check gates from where all goods from mainland India enter the North East, and Jhalukbari, Khanapara and Digarkhal check gates on Assam-Meghalaya border were also covered for benchmarking the performance of Taxation check gates in Meghalaya *vis-à-vis* the check gates of other States.

The methodology adopted during the course of audit entailed explaining the audit objectives to the Department/Government during an 'Entry Conference' held in May 2015, scrutiny of records at all check gates and unit offices, interaction with the auditee personnel, analysis of data with reference to audit criteria, raising of audit queries, issue of audit memos and seeking clarifications and discussion of audit findings with the Management.

The findings were communicated to the Department in November 2015 and an Exit Conference was held in December 2015 where the views of the Department to the findings were discussed. The replies, wherever received, have been appropriately incorporated in the relevant paragraphs.

2.4.5 Audit criteria

The following Acts/Rules/notifications were followed by audit for carrying out the PA:

- The Meghalaya Value Added Tax Act, 2003.
- The Meghalaya Value Added Tax Rules, 2005.
- The Central Sales Tax Act, 1956.
- The Central Sales Tax (Registration & Turnover) Rules, 2005.
- Meghalaya Financial Rules, 1984.
- Notifications/circulars, orders pertaining to check gates issued by the Taxation Department, Government of Meghalaya between 2005-06⁴ and 2013-14.
- Notifications/circulars, orders pertaining to check gates issued by the COT, Meghalaya between 2005-06 and 2013-14.

2.4.6 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Taxation Department in providing necessary information and records for audit.

2.4.7 Trend of revenue

The year-wise realisation of revenue by the check gates *vis-à-vis* the total sales tax receipts of the State is shown in the following table:

Table 2.2 (Trend of Revenue)

Year	<i>₹ in crore</i>		
	Revenue from checkgates	Total Sales Tax revenue	Percentage of checkgate revenue to total revenue
2008-09	4.02	281.83	1.42
2009-10	4.83	321.40	1.50
2010-11	17.39	412.88	4.21
2011-12	15.90	512.50	3.10
2012-13	14.27	631.12	2.26
2013-14	24.06	723.65	3.32

A bar graph to illustrate the realisation of revenue by the check gates *vis-à-vis* the total sales tax receipts of the State is shown below:

⁴ 2005-06 was the year from which VAT was introduced in the State hence notifications issued since 2005-06 were taken into account.



The bulk of revenue was in the form of additional security on coal, which accounted for an average of 98 per cent of the total check gate receipts during the period.

Among the check gates (**Details in Annexure-I**), Dainadubi check gate was the highest revenue earner for the Department. During the period, Dainadubi check gate realised ₹ 69.46 crore which accounted for 86 per cent of all check gate receipts.

2.4.8 Audit findings

Audit objective 1: Whether the provisions of the Acts/Rules governing the functioning of the check gates were adequate to ensure that no lapses occurred in effective management of check gates?

2.4.8.1 Norms not fixed for deployment of staff in check gates

The Taxation Department has not fixed norms for assessing the staff requirement and posting of staff in check gates. The check gate wise details of goods carrying vehicles crossing the check gates *vis-à-vis* the staff strength is shown below:

Table No. 2.3

Name of the Checkgate	Year-wise number of transport vehicles crossing the checkgate							Present Staff Strength	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	TOTAL	No. of ITs	No. of checkers
Byrnihat & Umling	457995	489095	557219	731864	613859	602701	3452733	15	26
Dainadubi	90711	91573	99920	114956	115898	92545	605603	4	14
Umkiang	33139	35382	44733	55091	53962	62201	284508	4	16
Bajengdoba	13824	13430	12612	12119	11119	10183	73287	2	4
Athiabari	13306	8606	3436	26072	18077	1462	70959	2	8
Tikrikilla	3397	3260	5130	5117	4131	5772	26807	2	3
Garampani	1473	1778	369	1140	2775	4229	11764	2	4
Garobadha ⁵	0	0	0	1565	3584	2665	7814	2	4
Mendipathar	698	1509	523	613	522	642	4507	2	2

⁵ The checkgate was established in December 2011. Hence no vehicles crossing the check gate prior to December 2011 were recorded.

Iew Mawroh	0	0	0	222	132	423	777	1	3
Umsiang	133	187	109	141	51	43	664	1	3
Total	614676	644820	724051	948900	824110	782866	4539423	37	87

From the table it may be seen that there was disproportionate distribution of staff vs vehicles' movement in the check gates. Three check gates (Bajengdoba, Garampani and Garobadha) with 73287, 11764 and 7814 goods vehicles passing through respectively had the same staff strength although Bajengdoba recorded ten times as many vehicles as compared to Garobadha during the period 2008-09 to 2013-14. Tikrikilla check gate, which recorded more than twice the number of vehicles passing through Garampani and more than thrice the number of vehicles passing through Garobadha, had lesser staff compared to the other two. The all-State average of vehicles to staff ratio was 5646:1. However, the check gate wise ratio is given in the following table:

Table No. 2.4

Name of the Check gate	Average number of vehicles crossing the check gate/year	Average staff posted in the check gate	Vehicle to staff ratio
Byrnihat and Umling	575456	39	14755:1
Dainadubi	100934	17	5937:1
Umkiang	47418	17	2789:1
Bajengdoba	12215	6	2036:1
Athiabari	11827	10	1183:1
Tikrikilla	4468	5	894:1
Garobadha	2605	6	434:1
Garampani	1961	6	327:1
Mendipathar	751	4	188:1
Iew Mawroh	130	4	33:1
Umsiang	111	4	28:1

From the above, it may be seen that Byrnihat and Umling which had the highest average number of vehicles crossing through them had the most disproportionate staff ratio while the lower rung check gates had a very healthy staff ratio. The skewed posting scenario in the State in the absence of any prescribed norms not only had a negative effect on the staff efficiency but also indicated poor manpower deployment and management on the part of the COT. In a situation where the important check gates were highly understaffed, it was humanly not possible for the staff posted in these check gates to efficiently discharge their duties.

On this being pointed out, the Department stated (December 2015) that operational feasibility was achieved through deployment of additional ITs in checkgates having higher vehicle movement.

The reply is not acceptable as the responsibility of assessing the staff requirements in relation to the workload lay with the COT since effective functioning of a check gate depended on the proper deployment of manpower. However, during the last six years not a single manpower need analysis was undertaken by Taxation Department in order to ascertain the actual requirements of the check gates *vis-à-vis* the volume of workload so as to work out viable solutions to the issue such as by way of

redeployment from the check gates with little or no trade movement. The inadequate staff strength had been impacting the revenue collection in those check gates which are discussed in the subsequent paragraphs.

Recommendation No. 1: *The Taxation Department may prescribe norms for deployment of staff in check gates based on a proper analysis of the manpower need of the check gates vis-à-vis the volume of business.*

Audit Objective 2: *Whether the check gates were complying with the provisions of the regulatory Acts/Rules/executive orders etc. and whether there were leakages of revenue as a result of non-compliance with the Acts/Rules?*

In order to ensure proper realisation of tax, provisions had been made in the Act/Rules and executive orders issued from time to time by the Government for realisation of tax at specified rate and impose fines and penalty in case of default by transporters for carriage of goods without proper and authorised documents through the check gates.

Audit observed the following deficiencies:

2.4.8.2 Norms for physical verification of Goods vehicles not followed

The COT, Meghalaya in 1979 prescribed norms of physical verification of 10 per cent of goods vehicles passing through the check post every day. A prescribed norm for inspection of vehicles would therefore ascertain the correctness of declarations furnished by the transporters at the check gates with the goods actually transported and would check and restrict activities to prevent scope for any evasion of tax by unscrupulous dealers.

Audit scrutiny however revealed that no records were available at the check gates to ensure that physical verification of vehicles was done as per the norms. Audit also noticed that none of the check gates had proper lay-bys⁶, infrastructure for loading and unloading, ramp, weighbridges, godowns and manpower in any of the check posts which are essential pre-requisites for carrying out physical verification.

Follow up reports on such inspection was also absent at the COT office which indicated lack of monitoring by senior officials to ensure that prescribed norms for inspection of vehicles as fixed was followed by all check gates.

A bench mark of adequate infrastructure at check gates was made with reference to the Composite check gate constructed by Assam State in 2010-11 at Srirampur, which is situated 4 km ahead of the Assam-West Bengal inter-State border on NH 31(C). The checkgate ensured single window clearance of the traffic entering and exiting through the check gate

⁶ *An area at the side of a road where vehicles may pull off the road and stop.*

after observing all the formalities. The checkgate had six lay-bys on either side of the main National Highway. The vehicles entering Assam first moved through the weigh bridges and after completion of formalities such as measuring weights, checking of goods, etc., the vehicles were parked inside the six lay-bys before the same are passed and issued gate passes by the different gates. Similarly, the vehicles exiting Assam move through the weigh bridges and are allowed to cross the gates after completion of the due formalities in all the departmental gates.



Byrnihat Taxation Check gate, Meghalaya. No lay-bys for parking of vehicles



Checking Ramps for inspection of vehicles at Srirampur Composite check gate, Assam



Umkiang Taxation Check gate, Meghalaya. No lay-bys and no space on the highway to stop the trucks



Parking sheds for loading & unloading at Srirampur Composite check gate, Assam

Besides infrastructural facilities for residential campus, the following additional facilities were available at Srirampur check gate in Assam:

- Three weigh bridges on either side of the high way; two weighbridges of 100 tonne and four weigh bridges of 60 tonne capacity;
- Two checking ramps;
- Two store houses;
- Three toilets and wash rooms for the truckers;
- Four parking sheds for the vehicles with a total capacity for 48 vehicles;
- Canteen;
- Police barrack for the security staff inside the office campus;
- Guest house for the visiting officers;
- DG sets & CCTVs; and
- SBI branch within the official campus of the Composite gate.

It would thus be observed that the infrastructural facilities were lacking considerably at the check gates in the State of Meghalaya.

On this being pointed out, the Department stated (December 2015) that the norms prescribed in 1979 were not relevant in the present time due to absence of infrastructure to support the huge increase in traffic over the last three decades.

The reply is not acceptable as the fact that the Department, despite having knowledge of the increase in the volume of trade, failed to analyse the growth in traffic at the checkgates and make suitable modifications to the norms even once in the last three decades.

Recommendation No. 2: *The Government may create adequate infrastructure at the check-posts and put a mechanism in place to ensure the objective of physical inspection norms of 10 per cent of the vehicles crossing the gates.*

2.4.8.3 Loss of revenue due to failure to check movement of outgoing vehicles

As per orders of the Commissioner of Taxes, Meghalaya, for carrying of coal/limestone exceeding the permissible limit, additional security in the form of advance tax at the rate of ₹ 193⁷ and ₹ 35 per MT of excess load for coal and limestone respectively has to be realised by the check gate authority on the basis of weighment slips received from an authorised weighbridge.

Wherever any goods in movement are without proper documents, the officer in charge of the check post shall impose a penalty equal to five times the value of tax or twenty *per cent* of the value of goods, whichever is higher as per Section 76 of the MVAT Act.

Audit scrutiny of records of two taxation check gates⁸ revealed that excess load of 3,53,006 MT of coal and 1,98,354 MT of limestone were transported through the two taxation check gates during the period 2009-14. However, on cross verification of records of DMR check gates/Transport Weighbridge⁹, it was found that during the same period, excess load of 4,29,220 MT of coal and 4,65,250 MT of limestone were detected by the DMR /Transport officials. This clearly indicated failure on the part of the taxation officials to check movement of overloaded vehicles without proper documents through their check gates which enabled movement of 76,214¹⁰ MT of excess load of coal and 53,364 MT of excess load of limestone thereby resulting in loss of revenue of ₹ 12.84 crore¹¹ to the State due to additional security (in the form of advance tax) and penalty on excess load transported not being realised.

⁷ Additional security on coal was levied @ ₹ 120/MT upto 05.08.2012 which was enhanced to ₹ 193/MT w.e.f. 06.08.12. The additional security of ₹ 35/MT on limestone was fixed w.e.f. May 2007.

⁸ Byrnihat and Umkiang taxation check gates

⁹ Approved Weighbridge of the Transport Department

¹⁰ Difference of 17958 MT and 58256 MT pertains to 2009-12 and 2013-14 respectively

¹¹ ₹ 2.14 crore (additional security); ₹ 10.70 crore (penalty)

2.4.8.4 Penalty on excess loading of coal and limestone not imposed

Under Section 76 of the MVAT Act, every consignment entering or leaving the state in the course of inter-State trade must be accompanied by valid documents such as *challans*, bills of sale, despatch memos, *etc.* Wherever any goods in movement are without proper documents, the officer in charge of the check post shall impose a penalty equal to five times the value of tax or twenty *per cent* of the value of goods, whichever is higher.

On examination of records of two taxation check gates, Byrnihat and Umkiang, audit observed that these check-gates realised only additional security money from the defaulting trucks carrying excess load of coal and limestone without imposition of penalty as per the Act *ibid.* During 2009-14, an amount of ₹ 3.65 crore and ₹ 3.58 crore was realised by Umkiang and Byrnihat check gates respectively being additional security on 10,91,677 MT of coal and limestone carried by trucks in excess of the permissible load¹². Failure to impose penalty had therefore resulted in loss of revenue of ₹ 36.15 crore¹³ during the period of PA.

2.4.8.5 Short levy of Composition¹⁴ fee

Under the provision of Section 90(xviii) of the MVAT Act, whoever imports into or exports from the State and furnishes incorrect or fictitious names or addresses of consignors or consignees or incorrect particulars of goods in the documents accompanying the goods while such goods are in transit shall be punishable with simple imprisonment which may extend to six months or with fine not exceeding rupees ten thousand or with both. Further under Section 96 of the Act the Commissioner may, for any offence punishable under Section 90 accept from any person charged with such offence by way of composition of offence a sum not exceeding five thousand or double the amount of tax, whichever is greater.

From a test check of the composition registers of two taxation check gates, Umkiang and Byrnihat for the period 2009-10 to 2013-14, it was noticed that composition registers did not mention full details of the consignments including value of the goods and the nature of offence committed. As a result, the ground on which such fines were imposed could not be ascertained. During this period, in 26,762¹⁵ offence cases detected by the

¹² In Meghalaya, permissible load is 9 MT

¹³ In absence of records on value of goods and tax involved passing through the check-gates without documents, penalty is calculated at five times on the basis of additional security money realised at the check-gates

¹⁴ If a dealer/transporter commits any offence for which he is liable for prosecution under Section 90, then in lieu of such prosecution, he can opt for compounding of his offence by paying composition fee for the offence committed.

¹⁵ 1122 cases was detected in Umkiang taxation check gate and 25640 cases was detected in Byrnihat check gate

two taxation check gates, the composition fee of ₹ 29.80 lakh only was realised as against ₹ 13.38 crore¹⁶ as per the provision of the MVAT Act.

Recommendation No. 3: *Necessary steps may be taken to analyse the reasons for non-detection of overloading of coal and limestone and effective measures be taken to curb them. Fines and penalty should be imposed on the defaulters as prescribed to reduce cases of movement of vehicles without valid documents.*

2.4.8.6 Transporters not registered

Under Section 80 of the MVAT Act, every transporter operating its transport business relating to the carriage of taxable goods in Meghalaya has to be registered with the ST, Enforcement Branch (EB) for the purpose of effective monitoring of movement of taxable goods into Meghalaya. Under Section 81, every registered transporter shall maintain an account in Form 17 showing the details of import of taxable goods into Meghalaya and submit the same to the ST every month. Further under Rule 29(1) of the MVAT Rules, every transporter liable for registration shall submit an application for registration within thirty days from the commencement of business. For violation of the provisions of Sections 80 and 81, penalty not exceeding ₹ 10,000 is leviable.

During the period from April 2008 to March 2014, 30 transporters imported 1,71,968 consignments of goods valued at ₹ 1,982.87 crore into Meghalaya. Cross-check with the records of the ST, EB, Shillong revealed that five¹⁷ transporters were not registered with the ST, EB, Shillong.

Absence of a system of co-ordination between the checkgates and the ST, EB thereby resulted in five unregistered transporters being allowed to operate in the State, which leaves a scope for evasion of tax by these transporters. Besides, penalty not exceeding ₹ 0.37 crore¹⁸ was also leviable from these transporters but the same was not levied.

It was also seen during the course of the Performance Audit that there was no system of exchange of information between the check gates and the ST, EB by way of monthly reports on movement of transporters. As such, there was no control mechanism with the ST, EB to tally the correctness of monthly returns provided by the transporters to the ST, EB.

During the period between 2008-09 and 2013-14, 62813 consignments out of 166981 consignments (38 per cent) crossing the Byrnihat checkgate were not accompanied by road permits. During the same period, the ST, EB, Shillong detected only 959 consignments not accompanied by road

¹⁶ $26762 \times ₹ 5000 = ₹ 13.38 \text{ crore}$

¹⁷ Out of 30 transporters only one was operating in Garo Hills and the same was registered with the ST, EB, Tura.

¹⁸ Penalty for non-registration = ₹ 10000 X 8 = ₹ 80,000

Penalty for non-submission of monthly returns = ₹ 10000 X 12 months X 6 years X 5 transporters = ₹ 36,00,000

Total = (₹ 80,000 + ₹ 36,00,000) = ₹ 36,80,000

permits thereby resulting in 61854 consignments actually entering the State undetected by the ST, EB which leaves a scope for evasion of tax by these transporters and potential loss of revenue to the State.

Recommendation No. 4: *The Taxation Department may make it compulsory for all transporters to register with the ST, EB failing which such transporters may not be allowed to carry their consignments into Meghalaya. The Department may also introduce a system of periodic exchange of information between the checkgates and the STs, EB.*

2.4.8.7 Lack of controls on inter-State movement of goods

As per Section 77 of the MVAT Act, when a motor vehicle coming from any place outside the State and bound for any other place outside the State, and carrying any taxable goods passes through the State, the driver or other person in charge of such vehicle shall obtain in the prescribed manner a Transit Pass (TP) from the officer in charge of the first check-post or barrier after his entry into the State and deliver it to the officer in charge of the last check post or barrier before his exit from the State failing which it shall be presumed that the goods carried thereby have been sold within the State by the owner or person in charge of the vehicle.

- Cross verification of the records of Assam check posts with Meghalaya entry check post at Byrnihat revealed that during the period from 2009-10 to 2013-14, the check posts of Assam issued 2,76,686 TPs to vehicles carrying goods valued at ₹ 20,842.73 crore which were passing through Meghalaya and destined for Tripura, Mizoram, etc. However during the same period, the entry check post of Meghalaya at Byrnihat issued only 3,719 transit passes to vehicles carrying goods valued at ₹ 52.46 crore which were passing through Meghalaya and were bound for Tripura, Mizoram, etc.

Thus it can be seen that during the period covered by PA, 2,72,967 vehicles carrying goods valued at ₹ 20,790.27 crore were allowed to enter Meghalaya without TPs which implied that:

- the vehicles did not exit Meghalaya and sold their goods within Meghalaya which resulted in potential loss of revenue to the State; or
- in the event of lack of correct information pertaining to the actual number of vehicles which were issued TPs at the entry checkgate at Byrnihat, there was every possibility that all the vehicles did not exit the State and that some of the vehicles might have offloaded their goods in the State.

In both the situations, the exit checkgate at Umkiang or the Enforcement Branch were in no position to verify the number of vehicles which were actually supposed to exit the State and thus there was inadequate or no control mechanism to regulate the movement of such goods in the State.

The details of TPs issued year-wise by the checkgates at Assam *vis-à-vis* the TPs issued by the entry checkgate at Byrnihat are shown in the following table:

Table No. 2.5

(₹ in crore)

Year	TPs issued by Assam check gates for vehicles passing through Assam and Meghalaya and destined for Tripura and Mizoram		TPs issued by Meghalaya check gate at Byrnihat for vehicles passing through Meghalaya and destined for Tripura and Mizoram		Difference	
	Number of TPs issued	Value of goods	Number of TPs issued	Value of goods	Number of TPs issued	Value of goods
2009-10	48393	3122.51	286	7.44	48107	3115.07
2010-11	57311	4122.18	166	2.67	57145	4119.51
2011-12	60924	4556.35	73	1.65	60851	4554.70
2012-13	56151	4466.16	1372	2.18	54779	4463.98
2013-14	53907	4575.53	1822	38.52	52085	4537.01
Total	276686	20842.73	3719	52.46	272967	20790.27

- It was further observed that out of 3,719 TPs issued by Byrnihat check gate to vehicles passing through Meghalaya and bound for Tripura, Mizoram *etc.*, during 2009-14, 78 TPs were not endorsed back by the exit checkgate at Umkiang. In the event of non-receipt of endorsed TPs, there was every possibility that the vehicles did not cross the checkgate and offloaded the goods in the State resulting in potential loss of revenue. Despite non-receipt of the endorsed TPs from the exit checkgate, no action was taken by the ST of the entry checkgate at Byrnihat to take up the matter with the exit checkgate or forward the details of such transporters to the Enforcement Branch.

Recommendation No. 5: *It may be ensured that TPs are issued to each and every vehicle that enters the State carrying taxable goods destined for other States.*

Audit Objective 3: *Whether there was adequate co-ordination between the check gates and the unit offices?*

Under Rule 53 of the MVAT Rules, every transporter/dealer who imports taxable goods into the State shall *inter alia* submit a Road Permit (RP)¹⁹ in Form-40, which details the particulars of goods being imported into the State, to the Officer-in-charge of the checkgate. As per Rule 58(2)(vi) of the Rules *ibid*, the Officer-in-charge shall verify the particulars of the RP, retain the “Original” foil of the RP and return the “Duplicate” foil to the transporter/dealer. He shall send the “Original” foil to the ST who had issued the RP to the dealer. As per the prevailing practice, the Officer-in-charge of check-gate is to send the dealer-wise details of RP every month to the concerned ST.

An evaluation was done to assess whether the check-gates were furnishing the RP details in time to the unit offices and whether the unit offices were

¹⁹ Road Permit is issued by the ST of the circle concerned to which the dealer belongs and is to be applied for in advance before importing the consignment into the State. Each Road Permit is for import of one consignment.

utilising the information received from the check gates for proper assessment of tax liability of the dealers. The following short-comings were noticed:

2.4.8.8 RP details not furnished by checkgates

It was observed during the course of the PA that Byrnihat and Umkiang checkgates were fully computerised and networked to the Departmental intranet and the concerned STs had complete information pertaining to the movement of goods from the checkgates using RPs. The other nine non-computerised checkgates, however, did not forward the RP details to the respective unit offices.

Despite non-receipt of information from the checkgates, no efforts were made by the concerned STs to either call for the information from the checkgates or apprise the Commissioner regarding non-furnishing of RP details by the checkgates. Thus, the concerned STs had no way to track the movement of goods into the State by the dealers under their circles.

2.4.8.9 Check gate information not utilised by the unit offices

Under Section 40 of the MVAT Act, if a dealer fails to pay the full amount of tax due per quarter, then simple interest at the rate of 2 per cent per month from the end of the month following the quarter is leviable. In addition, for non-payment of tax, penalty not exceeding twice the amount of tax involved is also leviable under Section 90 read with Section 96 of the Act *ibid*.

During the course of PA, records of two²⁰ of the non-computerised checkgates were examined in details. Based on the information obtained from the checkgates pertaining to import of taxable goods into the State, Audit cross-verified the same with the three²¹ ST offices to which these cases related. The following deficiencies were observed as result of the cross-verification:

- In Bajengdoba Checkgate, audit noticed that four²² dealers dispatched and sold 59607 MTs of limestone to M/s Virgo Cement Ltd., Damas between February 2011 and February 2013.

Cross-check of records in the concerned circles revealed that none of the four dealers were registered. Thus, in the absence of information sharing between the checkgate and the ST offices, there was non-declaration of sale amounting to ₹ 4.17 crore²³ by unregistered dealers resulting in loss of revenue of ₹ 0.21 crore,

²⁰ Bajendoba and Dainadubi.

²¹ STs, Tura I, Tura II & Williamnagar

²² M/s Jingman Marak (4734 trucks), M/s Marwan Sangma (584 trucks), M/s Payfifthson Sangma (373 trucks) and M/s Stoni Sangma (932 trucks) totalling 6623 trucks of limestone. Each truck carried limestone ranging from 9 MT to 15 MT. Taking minimum of 9 MT per truck, the quantity works out to 59607 MT.

²³ The Taxation Department has fixed the minimum sale price of limestone at ₹ 700 per MT.
Turnover = ₹ 700 X 59607 = ₹ 4.17 crore

being the VAT amount on sale, on which penalty not exceeding ₹ 0.42 crore was also leviable.

- Two dealers²⁴ disclosed taxable turnover at 13.5 per cent amounting to ₹ 0.32 crore in their quarterly returns for the period December 2011 to March 2013. Cross verification of the records in Dainadubi Taxation check gate, however, revealed that the dealers purchased cement valued at ₹ 1.24 crore during the same period. The dealer, thus, concealed minimum turnover of ₹ 0.92 crore on the sale of cement and evaded tax amounting to ₹ 0.12 crore. Besides, penalty not exceeding ₹ 0.24 crore and interest at prescribed rate was also leviable.
- Scrutiny of incoming vehicle register maintained by Dainadubi Taxation Check gate revealed that a dealer²⁵ purchased cement (taxable at 13.5 per cent) valued at ₹ 10.26 lakh during June 2012 to March 2013, the returns filed by the dealer for the same period did not include the purchases made. The dealer, thus, concealed the turnover of ₹ 10.26 lakh on the purchase of cement and evaded tax amounting to ₹ 1.39 lakh. Besides, penalty not exceeding ₹ 2.77 lakh and interest at prescribed rate was also leviable.
- It was observed that a dealer²⁶ disclosed purchase of goods amounting to ₹ 6.57 lakh purchase of 13.5 per cent goods for the period from April 2012 to March 2013. Cross check of the incoming register of Bajengdoba taxation check gate revealed that the dealer purchased cement amounting to ₹ 19.15 lakh during the same period. Thus, the dealer concealed purchase of ₹ 12.58 lakh leading to non-realisation of tax of ₹ 1.70 lakh on resale of cement.
- Two dealers²⁷ disclosed taxable turnover at 13.5 per cent amounting to ₹ 21.83 lakh in their quarterly returns for the period April 2012 to March 2013. Cross verification of the records in Bajengdoba Taxation check gate, however, revealed that the dealers actually purchased goods valued at ₹ 62.93 lakh during the same period. The dealers, thus, concealed minimum turnover of ₹ 41.10 lakh and evaded tax amounting to ₹ 5.55 lakh. Besides, penalty not exceeding ₹ 11.10 lakh and interest at prescribed rate was also leviable.
- Scrutiny of the incoming register of Bajengdoba check gate revealed that three dealers²⁸ purchased cement valued at ₹ 54.52 lakh during the year 2012-13. On cross verification with the concerned ST offices it was observed that these dealers were not registered²⁹. Thus, these dealers carried out business without being

²⁴ M/s Binod Pandey, M/s Latindra Sangma

²⁵ M/s Maruti Enterprise

²⁶ M/s Samad Hardware

²⁷ M/s Suranjan Karmakar & M/s Monoranjan Das

²⁸ Nimesh Enterprise, Bikash Enterprise & Nisha Enterprise of Mankachar

²⁹ The names of these dealers were neither available in both the offices of the Superintendent of Taxes, Tura-I & II nor in the list of registered dealers obtained from the COT.

registered leading to evasion of tax of ₹ 7.36 lakh on resale of cement.

As can be seen from the above cases, there were short realisation of revenue amounting to ₹ 1.12 crore to the State on account of concealment of turnover by dealers and business carried out by unregistered dealers which was mainly due to non-verification of RP details and failure on the part of unit offices to utilise the information furnished by the check gates at the time of assessment or submission of tax returns by the dealers. The revenue loss could have been avoided if the unit offices had utilised the information received from the check gates and used it to corroborate with the tax returns submitted by the dealers to check any evasion by the dealers.

Audit objective 4: *Whether the check gates were equipped with proper infrastructure in terms of space, manpower, location, computerisation, networking etc. for efficient discharge of duties?*

2.4.8.10 Poor working environment in check gates

Checkgates not only help in regulating the movement of goods into and from the State but are also an important means of safeguarding Government's revenue interests. It is therefore imperative that checkgates are equipped with proper infrastructure and healthy working environment to motivate the checkgate officials in discharging their duties efficiently.

During the course of the PA, Audit visited the checkgates in order to assess the working conditions. During the course of the visit, it was observed that there was complete lack of infrastructure such as IT equipment, office, electricity, etc. as detailed in the following paragraphs:

➤ Poor infrastructure to support the IT equipment

It was observed that all the checkgates had been equipped with computers and related IT equipment. However, due to lack of infrastructure to support the IT equipment, most of the equipment had been stacked away in corners in dilapidated conditions without being put to use as depicted in the following pictures.



Brand new Computers stacked away in a corner without being put to use in Dainadubi checkgate.



Computer & its peripherals kept in temporary structures at Mendipathar taxation check gate.

Most of the check gates were housed in dilapidated structures, which were not suitable for storage and use of IT equipment. Generators had been provided to the checkgates but funds for fuel for running the generators were not provided, as a result of which, un-interrupted power was not assured. The status of the levels of computerisation in the various check gates is shown in the table below.

Table No. 2.6

Sl No	Checkgate	Details of IT equipment/ work stations	Whether connected to Department's intranet	Power back up	Online data recording	Present status
1	Umkiang	11	Yes	Yes	Yes	Functional
2	Byrnihat &Umling	6	Yes	Yes	Yes	Functional
3	Garobadha	4	No	No	No	Not functional
4	Dainadubi	7	Yes	Yes	No, modem out of order	Non functional
5	Mendipathar	4	No	Yes	No	Non functional
6	Bajengdoba	4	Yes	Yes	No	Non functional
7	Athiabari	7	No	Yes	No	Non functional
8	Tikrikilla	4	No	Yes	No	Non functional
9	Garampani	2	No	Yes	No	Non functional
10	Iew Mawroh	Nil	No	NA	No	Non functional
11	Umsiang	Nil	No	NA	No	Non functional

From the table above, it could be seen that out of 11 check gates, only two gates *i.e.*, Umkiang and Byrnihat were functional in respect of online data recording. Two gates *i.e.*, Dainadubi and Bajengdoba although connected to the Department's intranet were non- functional as the modems were out of order. Two check gates, Iew Mawroh and Umsiang had not been issued any IT equipment. Offline data recording of the detailed information of the commodities and dealers involved in each consignment is not being done in any of the check gates which would have assisted the STs at the time of assessment and would have checked evasion of tax to a great extent. Computerisation of check gates would not only help in the overall efficiency of the check gate but would also assist the STs in unit offices for verification of figures included in the respective returns submitted by a

dealer. Mere distribution of computers by the COT to the check gates would not accomplish the objectives of computerisation.

➤ ***Lack of office infrastructure***

It was observed that in most of the cases, the checkgates were housed in dilapidated structures which were not suitable for accommodating the checkgates officials or for proper maintenance of records and registers as can be seen in the following pictures.



New generator kept in the open without any security, prone to vandalism and vagaries of nature.



Vehicles' movement registers lying in a heap in a corner, prone to theft and destruction.



Heaps of Road Permits lying in an open room without any doors.



Wall damaged in one of the rooms where Road Permits are kept.

In the absence of proper infrastructure to support the checkgate officials, it created a hindrance in effective discharge of duties by the officials. In all the cases, the checkgate officials complained³⁰ of the working environment and the lack of access to proper infrastructure.

On this being pointed out, the Department stated (December 2015) that the National Informatics Centre had been requested to develop a system to enable inter-departmental access of data uploaded by the check gates of various Departments. The Department also stated that maintenance of infrastructure at interior check gates was difficult considering their remoteness.

³⁰ *In random personal interviews with the checkgate officials.*

The reply is not acceptable as interlinking of data across departments will only work if all the check gates are computerised. However, the Department has not made any action plan to address this issue. Moreover, the remoteness of check gates makes it even more important for the Department to address the issue of infrastructure considering the nature of work, which the check gates have to perform.

Recommendation No.6: *The Department should work out an action plan to make the working conditions in the checkgates more amenable to the Government officials working in these checkgates so as to motivate them and to improve their productivity. Efforts maybe made to address the issue of incomplete computerisation and ensure that online connectivity be upgraded for uninterrupted data flow between check gates and field offices.*

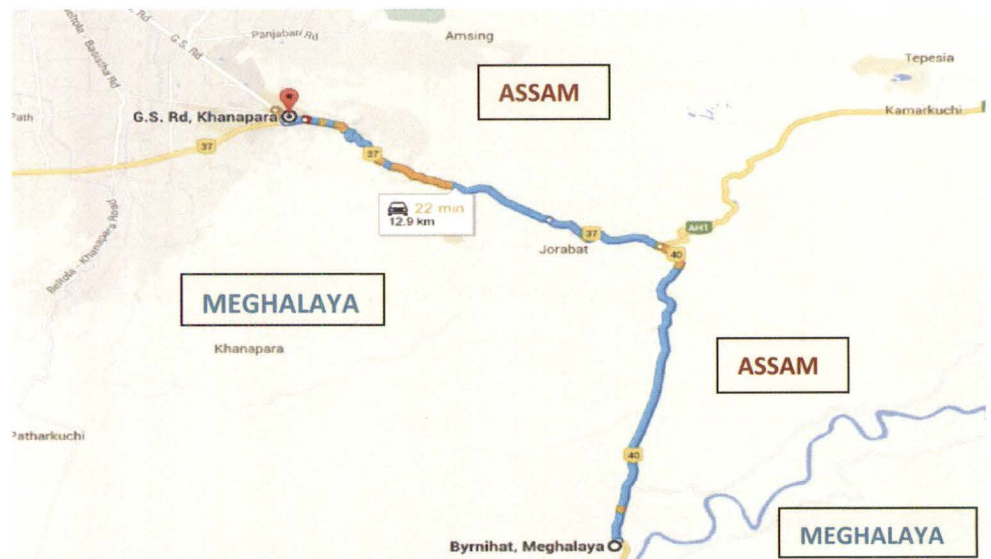
2.4.8.11 Check gate not established at strategic location

Under Section 76 of the MVAT Act, 2003 as well the erstwhile Taxation laws of Meghalaya, the State Government can establish check gates at strategic locations on the major trade routes. Under Rule 53 of the MVAT Rules, 2005 for import of taxable goods into Meghalaya, Road Permit in Form 40 along with the Invoice is to be furnished to the officer-in-charge of the check gate by the owner or the person in charge of the check gate. Each Road Permit allows entry of one consignment of taxable goods.

The National Highway, which connects the mainland India, the northern parts of Assam and other North-Eastern States with Shillong in Meghalaya and continues further south to reach the Southern parts of Assam, Tripura and Mizoram is the most important trade route for the State. However, the 100 km long GS Road³¹ is very uniquely placed considering the fact that the highway lies entirely in Meghalaya up to Byrnihat and thereafter the highway lies in both Assam and Meghalaya with one side of the road falling in Meghalaya and the other side of the road falling in Assam upto Khanapara (12 km from Byrnihat) and thereafter the Highway falls entirely in Assam.

The Taxation Department has a check gate at Byrnihat, which is not strategically located as the entire stretch of the 12 km highway up to Assam falls beyond the jurisdiction of the check gate. Absence of a check gate at the last exit point of the Highway renders the objective of setting up of a check gate at Byrnihat futile as the Taxation Department had no control over the import of taxable goods into the State by dealers situated in the areas between Byrnihat and Khanapara.

³¹ *The National Highway from Shillong to Guwahati is commonly referred to as the Guwahati-Shillong road or the GS Road.*



Map of the GS Road between Byrnihat and Khanapara.

During the course of the PA, an exercise³² was undertaken by Audit to ascertain the volume of trade carried out by dealers beyond the check gate and it was observed that at least 100 dealers were situated beyond the check gate which included 59 manufacturing units and 18 gas filling stations among others.

Cross-check of records of some of the dealers situated beyond the check gates revealed the following:

- Between April 2013 and March 2015, a manufacturing unit³³ disclosed outside purchase of ₹ 32.50 crore although no road permits or NOCs were issued to the dealer during the period.
- Between April 2014 and March 2015, two dealers³⁴ disclosed exempt sale of ₹ 0.17 crore and taxable sale of ₹ 0.03 crore. During the period, the dealers did not apply for any road permits/NOCs and also did not claim any Input Tax Credit. The fact that the dealers disclosed sale in the event of not having made any inter or intra-State purchases during the period indicated that there was no control of the Department over the business carried out by the dealers.
- Between April 2011 and March 2015, a dealer³⁵ applied for four road permits, which authorised him to import four consignments of goods. However, scrutiny of the dealer's records revealed that during the same period, the dealer actually imported 23 consignments of goods into the State which indicated that 19 consignments were illegally imported by the dealer without any Road Permits.

³² The Audit Team made a site visit of the areas between Byrnihat and Khanapara accompanied by checkgate officials in order to identify the names of the dealers.

³³ M/s AA Nutritions.

³⁴ M/s Abhishek Store, M/s S.P. Store.

³⁵ M/s Excel Foods.

- Between June 2012 and March 2014, six petrol pump dealers³⁶ imported/sold motor spirits and diesel valuing ₹167.35 crore. However, during the same period, not a single road permit was either applied for or granted to the dealers. Thus, the entire quantity of motor spirits and diesel procured during the period was without the knowledge of the check gate officials and consequently the concerned Superintendent of Taxes.
- A hardware dealer³⁷ was carrying on trade activities without obtaining any road permits and failed to submit tax returns in time. The ST, Byrnihat conducted enquiry on two occasions (August 2011 and July 2012) and found that the dealer was carrying on business without proper records. In absence of proper purchase and sales records, the tax liability of the dealer was assessed on assumptive basis. Since the dealer's place of business was beyond the taxation check-gate, the scope of purchase and sale of taxable goods could be carried out easily. The scope of concealment of turnover and further evasion of taxes by the dealer therefore could not be ruled out.
- A dealer³⁸ submitted quarterly returns for the period from April 2010 to March 2011 disclosing 'NIL' turnover for the period. Cross-verification with the records of the Taxation check gate of Assam located at Srirampur on the Assam-West Bengal border revealed that during the same period, the dealer actually imported 'Soap' amounting to ₹ 0.57 crore from a Siliguri based dealer and imported the same into the State through 31 consignments. The fact that the dealer was situated beyond the check gate enabled him to import the taxable goods into the State without the knowledge of the Taxation Department and evade tax amounting to ₹ 0.08 crore on which penalty³⁹ not exceeding ₹ 0.16 crore was also leviable.

The above observations indicated that the site selection for setting up of the check gate was done without any analysis, resulting in scope for evasion of tax by unscrupulous dealers. It may be further mentioned here that the Forest Department, Government of Meghalaya has set up a check gate at Khanapara, which is far more suitable as a check gate location than the present one.

On this being pointed out, the Department stated (December 2015) that availability of land was the main factor in the Department's inability to set up a check gate beyond the existing one.

The reply is not acceptable as the Department has not made any effort to either acquire land for setting up a new check gate or monitor the activities of dealers located beyond the present check gate.

³⁶ M/s NES Jorabat, M/s Alta Filling Station, Meera Service Station, Megha Service Station, Marwet Petroleum Agency & M/s J. Marbaniang.

³⁷ M/s Manisha Hardware.

³⁸ M/s Rajendra Yadav.

³⁹ Not exceeding twice the amount of tax evaded under Section 96 of the MVAT Act.

Recommendation No. 7: *The Taxation Department may consider suitable measures for installation of a checkgate at a more strategic location. This may include seeking co-operation from the Government of Assam at the highest level for utilising a portion of their land for setting up of a checkgate at Khanapara on a quid pro quo basis.*

Audit Objective 5: *Whether the Department had adequate internal controls in terms of supervision by senior management, periodical verification of information from DMR/Forest/Assam check gates, regular transfer of officials etc. to ensure that there were no leakages of revenue from the check gates?*

2.4.9 Internal Controls

Internal controls are safeguards that are put in place by the management of an organisation to provide assurance that its operations are proceeding as planned. Internal controls help in strengthening the public accountability of an organisation and maintaining standards of probity, prudence and ethics.

The fact that Taxation Department contributes major source of revenue to the State exchequer calls for effective internal controls over the operations of the Taxation Department.

2.4.9.1 Absence of Internal Audit Wing

Audit scrutiny revealed that the Taxation Department had no independent internal audit wing. The Examiner of Local Accounts (ELA) was responsible for conducting internal audit of State Government departments.

The evaluation of the system of working of the check posts was never conducted by the ELA. Furthermore, during the period of PA, there was no proposal made to ELA from the Taxation Department requesting for assessment of the internal functioning of the taxation check posts and suggest ways and means to plug leakage of revenue. The inaction on the part of the Department to conduct internal inspections of check gates indicated the lackadaisical attitude towards strengthening the internal control mechanism.

On this being pointed out, the Department while accepting (December 2015) the facts stated that shortage of officers was the major factor for not having set up an internal audit wing. The Department further stated that the State Government had been requested (October 2015) to sanction posts at senior level to enable the creation of an internal audit wing. Further development in this regard was awaited.

2.4.9.2 Inspections not carried out by supervisory officers

Regular inspection of the check gates by the supervisory officers is a key control activity for ensuring the satisfactory functioning of the check gates and is also an important tool for risk assessment.

The Taxation Department had not prescribed any norms for periodic inspection of check gates by supervisory officers. It was, however, noticed that during the period from 2008-09 to 2013-14, a total of 69 inspections were carried out at different supervisory levels as shown below.

Table No. 2.7

Name of the check gate	No. of vehicles crossing the check gate during 2008-14	Revenue collection (₹ in lakh)	No of Inspections/Supervisions between 2008-09 & 2013-14			Total
			At ST level	At ACT/DCT level	At COT level	
Byrnihat	3452733	448.68	NA	--	--	NIL
Dainadubi	605603	6946.14	1	1	--	2
Umkiang	284508	443.99	1	1	--	2
Bajengdoba	73287	17.09	16	--	8	24
Athiabari	70959	175.45	No records available			
Tikrikilla	26807	4.95	20	--	13	33
Garampani	11764	NIL	--	2	--	2
Garobadha	7814	4.96	--	1	--	1
Mendipathar	4507	4.47	2	1	--	3
Iew Mawroh	777	NIL	--	--	--	NIL
Umsiang	664	NIL	2	--	--	2
Total	4539423	8045.73	42	6	21	69

From the table above, it could be seen that the three most important check gates (Byrnihat, Dainadubi and Umkiang), which recorded the highest traffic and revenue collection during the period cumulatively reported only 4 inspections (6 per cent) with not a single inspection at the COT level. As there were no inspections by the supervisory officers, the Department had no means to know the issues affecting the effective functioning of the check gates.

It was further observed that apart from two cases, in none of the remaining 67 inspection reports, there were no remarks /comments made by the supervisory officers on the shortcomings and other issues impacting the effective functioning of the check gates. This indicated that the inspections were merely carried out in terms of record rather than suggesting weaknesses /shortcomings for corrective actions.

2.4.9.3 Inadequate Management Information System

Information and communication are essential basis for realisation of all the internal control objectives. An efficient organisation should develop an efficient and relevant information database, which is appropriate, timely, current, accurate and accessible. It is only when relevant information pertaining to an organisation is available can the efficiency and effectiveness of the organisation's operations be evaluated. A Management Information System (MIS) is a computerised database of financial

information organised and programmed in such a way that it produces regular reports on operations for every level of management in a company.

Audit examination revealed that the Department/Government had not yet developed well-defined MIS. There were no structured databases available in respect of check gates and its controlling unit offices in terms of regular reports/returns. Computerisation of all check gates were not completed and even the computerised check gates had no system to enable inter-departmental access of data uploaded by the check gates of various departments. A database linking all the check gates data with the main server was yet to be achieved. In absence of such data bank, an assessment on the efficiency and effectiveness on monitoring by the Commissionerate could not be carried out by Audit.

On this being pointed out, the Department, while accepting the facts, stated (December 2015) that a proposal had been sent (December 2015) to the State Government for creation of specialised cells dedicated to statistical research, computerisation and Management Information System. Further development in this regard was awaited.

2.4.10 Follow up on previous recommendations

The following recommendations were made in the previous Performance Audit (featured in the Audit Report 2007-08) on “Working of taxation check gates in Meghalaya” for the period covering 2002-03 to 2007-08.

- Issuing specific instruction for verification of the transit documents of each and every vehicles passing through the check posts. Also, physical verification of 10 *per cent* of the vehicles prescribed by the COT may be made mandatory.
- Making it mandatory for the unit offices to maintain prescribed registers and also to take cognizance of the way bills/road permits while finalising the assessments in the interest of Government revenue.
- Ensuring co-ordination between the check posts of the Taxation Department and DMR to arrest the scope of evasion of tax.
- Erection/shifting of check post at strategic points so that no dealer can transport taxable goods without crossing the check post.
- Setting up an independent internal audit wing to ensure compliance with the rules and regulations. Supervisory inspection should be made obligatory for proper enforcement of Acts, Rules and executive instructions.
- Periodical return to the COT showing receipt, issue and balance of receipt books in each check post may be made mandatory.

During the course of the present PA, it was noticed that none of the above recommendations were adopted by the ERTS department and no corrective steps were taken. This is evident from the fact that a number of the above shortcomings/lapses pointed out by audit were still persistent which are commented in earlier paragraphs. This action of the Department/

Government shows the lackadaisical attitude to implement effective measures in the interest of the State for maximising revenue collections.

2.4.11 Conclusion

- The working of check gates, which were established to prevent/check avoidance or evasion of tax, was adversely affected due to lack of adequate infrastructure for carrying out physical inspection of vehicles.
- Deployment of manpower at check gates was skewed without proper manpower analysis / basis, which was a major contributing factor for revenue leakages.
- There was lack of co-ordination between the check gates and the unit offices with respect to verification of Road Permits, maintenance of details of potential dealers and utilization of information of check gates by the STs, leading to concealment of turnover by dealers.
- Control on movement of vehicles through the check gates was poor, which resulted in substantial number of goods vehicles escaping notice of the check post authorities leading to evasion of tax.
- Transporters of taxable goods meant for other states were allowed to pass through the Byrnihat check gate in Meghalaya without issue of TPs leaving ample scope for possibility of consignments being unloaded in Meghalaya.
- The checkgate at Byrnihat was not located strategically, resulting in export of goods remaining undetected, and also resulting in acceptance of turnover disclosed by the dealers without any scope of further verification.
- Internal control mechanism was weak as evidenced by absence of internal audit, shortfall in inspection by the departmental officers and absence of database.

2.4.12 Summary of recommendations

The Department/State Government may consider the following recommendations to check evasion of tax:

- The Taxation Department may prescribe norms for deployment of staff in check gates based on a proper analysis of the manpower needs of the check gates *vis-à-vis* the volume of business.
- The Government may create the necessary infrastructure at the check-posts so as to achieve the objective of physical inspection norms of 10 *per cent* of the vehicles crossing the gates.
- Necessary steps may be taken to analyse the reasons for non-detection of overloading of coal and limestone and effective measures be taken to curb them. Fines and penalty should be imposed on the defaulters as prescribed to reduce cases of movement of vehicles without valid documents.

- It may be ensured that Transit Passes are issued to each and every vehicle that enters the State carrying taxable goods destined for other States.
- The Department should work out an action plan to make the working conditions in the checkgates more hospitable to the Government officials working in these checkgates so as to motivate them and to improve their productivity. Efforts maybe made to address the issue of incomplete computerisation and ensure that online connectivity be upgraded for uninterrupted data flow between check gates and field offices.
- The Taxation Department may consider suitable measures for installation of a checkgate at a more strategic location. This may include seeking co-operation from the Government of Assam at the highest level for utilising a portion of their land for setting up of a checkgate at Khanapara on a *quid pro quo* basis.

2.5 Audit on the theme "Deduction of Tax at Source"

Highlights

➤ Out of seven departments test checked by audit, VAT of ₹ 7.98 crore was not deducted/ short deducted by the DDOs from 670 contractors' bills. Further, failure of the departments to deduct VAT at source from the bills of the contractors and submit details of works to the respective STs resulted in evasion of VAT of ₹ 1.68 crore by the contractors.

Para 2.5.7.1

➤ Failure of the departments to award works to dealers/contractors who were not registered in the State resulted in loss of revenue of ₹ 18.80 crore to the State.

Para 2.5.7.2

➤ Wrong computation of taxable turnover by the DDO from the contractors' bills resulted in loss of revenue of ₹ 15.24 crore to the State and undue benefit was given to the contractors to that extent.

Para 2.5.7.3 A

➤ Due to incorrect application of rate of works contract by the DDO, there was short-realisation of VAT of ₹ 2.54 crore.

Para 2.5.7.4

➤ Undue benefit of ₹ 37.81 crore was extended to a contractor by the ST due to incorrect application of rate of VAT on works contract and unrealistic assessment of taxable turnover.

Para 2.5.9.1

➤ Internal control mechanism was weak as was evident from the fact that there was no regular conduct of trainings, seminars and workshops on TDS and also failure of the Taxation Department to impose penalties against erring departments for failing to deduct TDS.

Para 2.5.8

2.5.1 Introduction

The Meghalaya Value Added Tax (MVAT) Act, 2003 which regulates the collection of tax in the State has special provisions for deduction of tax at source. As per Section 106 of the MVAT Act and Rule 39 of the MVAT Rules, 2005 every person working in any Government Department including companies, corporations etc. wholly or substantially owned by the Government, responsible for making payments in respect of any sale or supply of goods or transfer of the right to use goods or works contracts must deduct tax at source while making such payments and credit the same to the Government within ten days from the expiry of the month to which such deduction relates.

The issues relating to the system of tax deduction at source (TDS) in Meghalaya was taken up by audit in order to assess the efficacy of the tax

deduction mechanism in the Government Departments and the overall management & monitoring of the same by the Taxation Department.

2.5.2 Audit Objectives

The Audit was carried out on the following broad objectives:

- Whether the provisions relating to TDS were effectively complied with by the Government Organisations?
- Whether the TDS was remitted to Government account in the manner and time as prescribed?
- Whether the internal control mechanism to oversee the TDS process was in place and was adequate?

2.5.3 Audit Scope and methodology

The Audit covering the period from 2009-10 to 2013-14 was conducted between November 2014 and March 2015 through test check of records of one Central Government Organisation⁴⁰, one Autonomous body⁴¹, one Corporation⁴² and 27 other units under the State Government⁴³. Based on the information obtained from the unit offices, Audit cross-verified the same with records of the Superintendents of Taxes (ST) of 11 Circles under the Commissioner of Taxes (COT), Meghalaya.

2.5.4 Audit Criteria

The audit findings were benchmarked against the criteria derived from the following Acts/Rules/notifications:

- Meghalaya Value Added Tax, 2003;
- Meghalaya Value Added Tax Rules, 2005; and
- State Government notifications and executive orders issued from time to time

2.5.5 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Government departments and the Taxation Department in providing necessary information and records for audit. An Entry Conference was held with the COT on 29 October 2014 in which the audit methodology and scope of audit was discussed. The findings of Audit were

⁴⁰ Directorate General of Assam Rifles, Shillong

⁴¹ North Eastern Hill University, Shillong

⁴² Meghalaya Energy Corporation Limited

⁴³ **Public Works Department:** (1) NEC Division Tura, (2) Tura North Division, (3) NH cum Central Division Tura, (4) Building Division Tura, (5) DPIU/PMGSY Tura (6) Ampati Division, (7) Barengapara Division, (8) NH Division Shillong, (9) Building Division Shillong, (10) Central Division Shillong, (11) Umsning Division and (12) Nongpoh Division; **Health Department:** (1) Health Engineering Wing Shillong, (2) Directorate of Health Services (Medical Institutions), (3) Directorate of Health Services (Maternity & Child Health) and (4) Mission Director (NRHM); **Public Health Engineering Department:** (1) Tura, (2) Tura North and (3) Ampati Divisions; **Water Resources Department:** (1) Chief Engineer (WR), Shillong and (2) Garo Hills (WR) Division; **Community & Rural Development Department:** (1) Rongram, (2) Selsella and (3) Myllem blocks; **Directorate of Public Instruction;** **Tourism Department:** (1) Hotel Pinewood, Shillong; **Sports Department:** Directorate of Sports and State Sports Council

communicated to the Government on 13 July 2015 following which, an Exit conference was held on 28 October 2015 in which all the audit observations were discussed with the COT. The replies of the Taxation and other Government Departments have been incorporated at appropriate places.

2.5.6 Trend of Revenue Collection

VAT collected from Government departments, as compared to total VAT Receipts of the State for the period 2009-10 to 2013-14, was as follows:

Table No. 2.8 (₹ in crore)

Year	Total VAT receipts of the State	Amount of VAT collected (TDS) from Government departments/contractors	Percentage of VAT collection from Government Departments out of total VAT receipts of the State	Percentage of increase / (decrease) in VAT collection from Government Departments
2009-10	189.66	22.78	12.01	--
2010-11	222.66	22.45	10.08	(-) 1.45
2011-12	293.03	27.97	9.55	(+) 24.59
2012-13	407.03	59.32	14.57	(+) 112.08
2013-14	410.26	61.48	14.99	(+) 3.64

(Source: Information furnished by the COT and STs of all Taxation Circles)

A graph depicting the trend in collection of VAT through TDS is shown below.



From the graph it may be seen that the year-wise trend of revenue collection through TDS vis-à-vis the total VAT realised was almost similar. The Taxation Department, however, did not maintain a database of revenue collected through TDS and targets for TDS collection from Government departments were also not fixed. To increase the revenue collection from TDS, fixing of targets in this respect is extremely essential as the percentage of TDS collection with respect to the actual expenditure of the State was extremely low during the years 2009-10 to 2012-13. Thus,

the Taxation Department should maintain a database of revenue collected from TDS on a regular basis and fix targets of the same so as to enhance the amount of revenue collected from this source and plug the loopholes in the collection process.

2.5.7 Audit Findings

Audit Objective 1: Whether the provisions relating to TDS were effectively complied with by the Government departments?

2.5.7.1 Irregularities in deduction of tax at source by the Drawing & Disbursing Officers (DDOs)

The objective of TDS is to ensure realisation of tax from dealers/contractors carrying on business in Government Departments or in establishments under the control of the Government.

Section 106 (2) of the MVAT Act stipulates that the DDO should deduct VAT at source from the contractors' bills on sale or supply of goods under works contract. Such tax shall be calculated at the rate of 12.5 per cent (increased to 13.5 per cent from February 2011) after allowing a percentage of deduction from the value of work towards labour and other services as prescribed in Schedule-IV A of the Act. The DDOs are not authorised to make assessment but to ensure deduction of tax for facilitating regular assessment by the ST.

Based on the information furnished by the Departments, test check of vouchers was carried out by audit. Scrutiny revealed that the DDOs in a number of cases failed to deduct VAT as per the provisions of the Act resulting in short/non deduction of VAT as discussed in the following paragraphs.

(A) Tax not deducted at source

Test check of vouchers involving work value of ₹ 2 lakh and above in respect of seven Departments for the period under review revealed that in 402 cases, the DDOs did not realise VAT at source amounting to ₹ 4.81 crore from the contractors' bills as summarised below:

Table No. 2.9 (₹ in crore)

Name of the Department (No of Divisions)	No of contractors (No. of bills)	Total Work Value	Taxable turnover on which VAT was realisable	VAT not deducted
PWD (06)	85 (113)	34.46	25.67	3.27
PHE (03)	49 (83)	1.41	1.05	0.14
Water Resources (01)	05 (06)	2.02	1.52	0.19
Health Engineering Wing, Shillong	09 (22)	5.15	3.86	0.52
NRHM, Shillong	04 (04)	0.12	0.09	0.01
DIPR, Shillong	23 (153)	4.94	3.71	0.49
Director of Sports & Youth Affairs, Shillong	7 (21)	1.83	1.83	0.19
Total	182 (402)	49.93	37.73	4.81

(B) Short deduction of tax at source

Test check of vouchers involving work value of ₹ 2 lakh and above in respect of four Departments for the period under review revealed that in 847 cases, the DDOs did not deduct full VAT from the contractors' bills as prescribed resulting in short deduction of VAT of ₹ 3.17 crore from the contractors' bills as summarised below:

Table No. 2.10 (₹ in crore)

Name of the Department	No of contractors (No. of bills)	Total Work Value	Taxable turnover on which VAT was realisable	VAT to be deducted	VAT deducted	VAT short deducted
PWD	415 (696)	52.63	39.48	5.26	2.64	2.62
PHE	41 (89)	3.42	2.57	0.34	0.10	0.24
Water Resources	24 (28)	3.47	2.60	0.34	0.15	0.19
DIPR, Shillong	8 (34)	2.34	1.75	0.23	0.11	0.12
Total	488 (847)	61.86	46.40	6.17	3.00	3.17

To examine the possibility of evasion of tax by the dealers involved in the above cases of short-deduction and non-deduction of tax by concealing the turnover in their returns. Audit test checked the case records of 132 dealers out of the 670 dealers (20 per cent) and observed that in 36 cases, there was concealment of turnover resulting in evasion of tax as discussed in the succeeding paragraphs:

- **TDS not deducted and submission of nil returns**

Between September 2010 to March 2014, four Divisions under two departments⁴⁴ awarded works contract to 10 contractors amounting to ₹ 2.83 crore but did not deduct VAT amounting to ₹ 0.27 crore from the bills of the contractors. Cross verification of the case records of the contractors with the Taxation Department revealed that the contractors did not disclose the turnover in the quarterly returns. Thus, failure of the Departments to deduct VAT at source and also failure of the contractors to subsequently furnish details of works executed by them to the Taxation Department resulted in evasion of tax of ₹ 0.27 crore.

- **Short-deduction of TDS and submission of nil returns**

Between May 2009 to March 2014, 14 Divisions under two departments⁴⁵ awarded 125 works contracts to 21 contractors amounting to ₹ 6.81 crore and deducted VAT of ₹ 0.34 crore from the bills of the contractors instead of ₹ 0.67 crore thereby resulting in short deduction of TDS amounting to ₹ 0.33 crore. On cross verification of these cases in the Taxation Department, audit observed that these contractors had not disclosed the turnover of these works contracts in their quarterly returns. Thus, short-deduction of VAT at source by the Departments was compounded by the duplicity of contractors in not furnishing details of works contracts by the

⁴⁴ Public Health Engineering & Public Works Department.

⁴⁵ Public Health Engineering & Public Works Department.

contractors in the assessment files which resulted in evasion of tax of ₹ 0.33 crore.

- **Short-deduction of TDS and submission of returns with reduced turnover**

Between October 2005 and March 2014, two departments awarded works contracts valuing ₹ 16.11 crore to five⁴⁶ dealers and deducted VAT of ₹ 0.67 crore from the bills of the contractors instead of ₹ 1.59 crore. Cross-verification of the case records of the dealers in the Taxation Department revealed that the dealers while submitting returns for the above mentioned period declared reduced turnover of ₹ 5.44 crore and submitted *challans* for VAT amount of ₹ 0.51 crore. Thus, the dealers concealed turnover of ₹ 10.67 crore and evaded tax of ₹ 1.08 crore⁴⁷. Furthermore, the fact that the dealers submitted TDS *challans* for ₹ 0.51 crore despite actual deduction of ₹ 0.67 crore with a difference of ₹ 0.16 crore indicates that the entire amount of TDS deducted was not deposited by the departments.

Recommendation No. 1: *The Taxation Department should ensure that all departments deduct tax at specified rates. A mechanism should be in place to facilitate cross-verification of the works executed by contractors and proper deduction and deposition of TDS between Taxation Department and other Government departments.*

2.5.7.2 Loss of revenue due to awarding of works contracts to unregistered dealers

Section 3 of the MVAT Act stipulates that a dealer:

- (a) whose turnover during the year preceding the commencement of the MVAT Act (i) exceeded ₹ 1 lakh or who was (ii) liable to pay tax under any of the Repealed Acts or the Central Sales Tax (CST) Act, 1956 or;
- (b) whose turnover calculated from the commencement of any year exceeds ₹ 1 lakh or (ii) who has become liable to pay tax under the CST Act shall be liable to pay VAT. Further, Section 31 of the Act mandates registration of a dealer before carrying on business in the State.

The COT in August 2012 had also instructed all the Government departments to ensure that no work orders be issued to non-registered dealers/contractors so as to avoid any scope of tax evasion.

However, test check of records of Director General of Assam Rifles (DGAR), Shillong; Meghalaya Electric Energy Corporation Limited, 12 PWD Divisions⁴⁸, three PHE Divisions⁴⁹ and Water Resource Depart-

⁴⁶ M/s R.B. Corporation, M/s RGS Construction Company, M/s Joseph Ch Marak, M/s Artist Pyngrope, M/s Donbok Myria. (Details in [Annexure-II](#))

⁴⁷ 13.5 per cent on (75 per cent of ₹10.67 crore) = ₹1.08 crore.

⁴⁸ (1) NEC Division Tura, (2) Tura North Division, (3) NH cum Central Division Tura, (4) Building Division Tura, (5) DPIU/PMGSY Tura, (6) Ampati Division, (7) Barengapara Division, (8) NH Division Shillong, (9) Building Division Shillong, (10) Central Division Shillong, (11) Umsning Division and (12) Nongpoh Division.

⁴⁹ (1) Tura, (2) Tura North and (3) Ampati Divisions

ment⁵⁰ revealed that these departments awarded works contracts to 645 dealers/contractors valued at ₹ 362.12 crore who were not registered under the MVAT Act.

It was further observed that (a) in respect of dealers/contractors from outside the State, no VAT was deducted at source from their bills and (b) in respect of local unregistered dealers there were cases of either short deduction or non-deduction of VAT. The details of cases where the departments had not realised/short-realised VAT are summarised as under:

(A) Dealers from outside the State

Table No. 2.11 (₹ in crore)

Name of the Department	Number of unregistered dealers/contractors	Value of works executed by the dealers/contractors	Amount of VAT involved ⁵¹	Amount of VAT realised	VAT non-realised/short realised
DGAR, Shillong	387	338.53	16.93	NIL	16.93
MeECL	02	14.79	0.74	NIL	0.74
Total	389	353.32	17.67	NIL	17.67

(B) Dealers from within the State

Table No. 2.12 (₹ in crore)

Name of the Department	Number of unregistered dealers/contractors	Value of works executed by the dealers/contractors	Amount of VAT realisable	Amount of VAT realised	VAT non-realised/short realised
PWD	172	15.48	1.51	0.60	0.91
PHE	8	0.16	0.02	0.003	0.02
Water Resources	23	3.76	0.36	0.16	0.20
Total	203	19.40	1.89	0.66	1.13

Thus, the decision of the departments to award works to dealers/contractors who were not registered in the State resulted in loss of revenue of ₹ 18.80 crore to the State. The loss could have been avoided had the departments complied with the instructions of the COT and ensured the registration of the dealers in the State before awarding of works to them as per the provisions of the MVAT Act.

Recommendation No. 2: *The State Government may consider making it mandatory that all Government contracts are awarded only to dealers/contractors registered in the State.*

2.5.7.3 Undue benefit to contractors

(A) Due to wrong computation of taxable turnover

Section 5 of the Meghalaya Value Added Tax, 2003 stipulates that the taxable turnover of sales in relation to a works contractor shall be part of the gross turnover of sales (total value of goods transferred in property either in same form or other form) during any period after deducting there

⁵⁰ Garo Hills (WR) Division

⁵¹ Calculated at the minimum VAT rate of 5 per cent.

from the charges towards labour, services and other like charges and subject to such conditions as may be prescribed by the State Government. In respect of civil structures like buildings, roads, etc., the percentage of deduction towards labour and other services fixed by the State was 25 per cent which was to be reduced from the gross turnover to arrive at the taxable turnover on which VAT on works contract was to be charged. Thus, on 75 per cent of the gross value of works executed by the contractor, VAT at 13.5 per cent is to be charged.

On examination of works undertaken by the Assam Rifles Engineering Branch under DGAR, Shillong for the period from 2009-10 to 2013-14, it was observed that the Division did not adopt the correct procedure of deducting VAT on the total value of the works executed by the contractors as per MVAT Act & Rules. During the period from 2009-10 to 2013-14, 941 bills involving works valued at ₹ 356.42 crore were passed by the Division on which VAT amounting to ₹ 33.41 crore⁵² was required to be deducted. However, the Division deducted ₹ 18.17 crore as VAT from the bills of the contractors resulting in short realisation of VAT amounting to ₹ 15.24 crore.

Thus, wrong computation of taxable turnover by the DDO from the contractors' bills resulted in loss of revenue of ₹ 15.24 crore to the State and consequent undue benefit to the contractors.

(B) Due to liability of payment (VAT) being borne by the Department

As per Section 106 of the MVAT Act, all Government Departments are to deduct tax at source while making payments to contractors. Further as per Section 3 of the MVAT Act, the primary liability to pay VAT rests on the dealer/contractor effecting the sales/executing the work.

Examination of records of the Campus Development Department, North Eastern Hill University (NEHU), Shillong for the period from 2009-10 to 2013-14 revealed that NEHU awarded works to three contractors⁵³ valued at ₹ 38.34 crore⁵⁴ with the condition that the applicable VAT of ₹ 3.37 crore would be borne by NEHU.

Thus, by excluding the VAT liability from the contract value, NEHU violated the provisions of Section 106 of the MVAT Act as it failed to deduct tax at source. This has resulted in undue benefit to the contractors to the tune of ₹ 3.37 crore. Further, the contractors also violated the

⁵² The rate of VAT on works contract was 12.5 per cent upto 24.02.11 and thereafter from 25.02.11, this rate increased to 13.5 per cent.

⁵³ M/s Shrolenson Marbaniang: (i) Construction of Cultural Park Building at Permanent Campus, NEHU, Shillong under North East India Centre of Diversities (NEICOD) and (ii) Raising of additional floor over the existing building for School of Technology at Shillong; M/s B.D. Marbaniang: Construction of Laboratory at NEHU, Shillong;

M/s Caroline Pala: Construction of Cluster of Classrooms at NEHU, Shillong under University with Potential for Excellence (UPE) & XIth Plan.

⁵⁴ Estimates for construction were as per the Schedule of Rates (SOR). Calculation of VAT in the bills of the three contractors were made at the rates of 12.5 per cent and 13.5 per cent applicable at the time of passing of these bills.

provisions of Section 3 of the MVAT Act by failing to pay the applicable VAT on the works executed.

2.5.7.4 Loss of revenue due to incorrect application of VAT on Works Contract

As per Section 2(xlv) of the MVAT Act, “works contract” means and includes any contract or agreement which is carried out for cash or for deferred payment or for any other valuable consideration such as building construction, manufacture, processing, fabrication, erection, installation, laying, fitting out, improvement, modification, repair or commissioning of any movable or immovable property.

Section 5(1) of the MVAT Act stipulates the rate of VAT to be applied on the turnover of sales of goods specified in Schedule II, III & IV and as per Schedule IV of the Act, the rate of VAT on Works Contract was fixed at 12.5 *per cent* which was revised to 13.5 *per cent* in February 2011 vide notification No ERTS(T)/36/2005/191 dated 25.02.11.

From the records of the Chief Engineer, Rural Electrification, MeECL Shillong it was observed that the work for implementation of Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) projects in Jaintia Hills, Ri-Bhoi and East Khasi Hills districts under the Tenth Plan was awarded to three⁵⁵ contractors between July 2007 and September 2007 on turnkey basis by splitting up the works into two parts - one contract for supply of materials for the project and another for erection contract for construction works on village electrification including installation of electric lines and other electric works.

Scrutiny of records relating to the above turnkey projects executed by the three contractors revealed that materials worth ₹ 45.64⁵⁶ crore were supplied to the Corporation and VAT of ₹ 2.53 crore was deducted from the bills of the contractors at a rate lower than the prescribed rate of 12.5 *per cent*. As per the Act, VAT at the rate of 12.5 *per cent* amounting to ₹ 5.07⁵⁷ crore was required to be realised from these turnkey projects, being works contract.

Thus, due to incorrect application of rate there was short-realisation of VAT of ₹ 2.54 crore.

Audit Objective 2: Whether the TDS was remitted to Government account in the manner and time as prescribed?

2.5.7.5 Delay in deposit of TDS

Section 106 (3) of the MVAT Act read with Rule 39 of the MVAT Rules stipulates that tax deducted shall be deposited within ten days of each

⁵⁵ M/s Marbaniang Enterprise, M/s Dhar Construction Company and M/s G M Syiemlieh

⁵⁶ M/s Marbaniang Enterprise: ₹ 26.32 crore; M/s Dhar Construction Company: ₹ 17.70 crore ; G M Syiemlieh: ₹ 1.62 crore

⁵⁷ $(456440432 \times \text{Rate of VAT}) / (100 + \text{Rate of VAT})$

month by the DDO and details of such deductions should be forwarded to the Assessing Authority in prescribed form.

On examination of the case records pertaining to remittances of VAT deducted by the PWD, PHE, Health & Water Resources Departments in three⁵⁸ districts, the following deficiencies/irregularities were observed:

- VAT deducted from the contractors bills were kept in Civil Deposit by the Divisions at the end of each quarter and the same were actually remitted in the next quarter by withdrawing these civil deposits and issuing cheques to the concerned STs for deposit into the Government account. Thus, in every case there was a delay of at least three months in remittance of Government revenue due to idle parking of funds in Civil Deposit. As a result, VAT amounting to ₹ 8.75 crore deducted by 15 DDOs⁵⁹ in the three districts were not credited to the Government account as on 31 March 14.
- It was further observed that in 46 cases, three departments did not deposit the VAT deducted from the contractors' bills within the stipulated period resulting in delays in deposit of TDS ranging from 03 days to 429 days as detailed below.

Table No. 2.13

District	Name of the Department	Circle	No of VAT cheques involved	Amount (₹ in crore)	Period of Delay ⁶⁰
Garo Hills	PWD, Building Division, Tura	ST, Tura, Circle I & II	6	0.93	03 days to 47 days
	PWD NEC Division, Tura		2	1.00	05 days to 28 days
	PWD North Division, Tura		4	1.51	03 days to 73 days
	PWD Central Division, Tura		3	0.58	41 days to 72 days
	PWD, Ampati Division		4	0.88	3 days to 112 days
	PHE, Tura Division		2	0.06	02 days to 09 days
	Water Resources, Tura		6	0.95	26 days to 56 days
Ri-Bhoi	PWD, Nongpoh and Umsning Divisions	ST, Nongpoh	19	9.36	30 days to 429 days
Total			46	15.27	

- One cheque numbered "409548" dated 05.03.12 of ₹ 0.90 crore was forwarded to the ST, Tura Circle II in March 2012 by PWD, Tura North Division. Audit observed that the ST failed to deposit cheque in time and returned the cheque in February 2014 (after lapse of two years) to the Division for its re-validation against which the Division issued a fresh cheque (dated July 2014) in

⁵⁸ Garo Hills, East Khasi Hills and Ri-Bhoi districts.

⁵⁹ Public Works Department.

⁶⁰ Delay calculated by considering date of deposit of the cheques for a particular quarter by the 10th of the following month.

September 2014 which was immediately credited. The delay of more than two years in the process of remitting the TDS amount by the ST apart from the delay by the Division resulted in blocking of Government revenue amounting to ₹ 0.90 crore.

Agreeing to the audit observation, the COT (September 2015) stated that the Government had been requested to issue specific instructions to the DDOs not to park the TDS deducted into “8443 Civil Deposit” but to credit it to the Revenue Receipt Head. The COT further stated that directions had been issued to all the STs to not delay presentation of cheques to the banks for clearing.

2.5.7.6 TDS not deposited

Two⁶¹ divisions deducted VAT amounting to ₹ 19.15 crore as TDS from the contractors’ bills on works contracts executed between May 2011 and March 2014. However, the TDS deducted was not deposited into the proper Head of Government account till date of Audit (July 2015). While non-deposit of TDS is highly irregular, this government money is prone to misuse and is a matter of serious financial irregularity.

2.5.7.7 Deposit of TDS into incorrect Head of Account

As per the extant practice, in respect of National Highway works, contractors’ bills are duly verified and forwarded by the PWD Divisions to the Regional Office, Guwahati for clearance after making necessary deductions such as security deposits, VAT, income tax, etc. from the bills. After the bills are cleared, cheques are issued to the Division by the Regional Office for making payment to the contractors and remittance to receipt heads of concerned Government agencies to which the deductions relate to.

Audit observed that one PWD Division⁶² received eight cheques amounting to ₹ 7.83 crore on VAT deducted from the contractors’ bills relating to the period from 2009-10 to 2013-14. The Divisions instead of crediting these cheques to the Head of Account “0040-Sales Tax” of Taxation Department wrongly credited them to the Head “8782-102-Public Works Remittances”.

Thus, failure on the part of the Divisions to correctly credit Government receipts into proper Head of Account, had resulted in wrong accounting of TDS amounting to ₹ 7.83 crore.

⁶¹ Barengapara Division: ₹ 65.53 lakh (June 2009-March 2013); Health Engineering Wing, Shillong: ₹ 18.49 crore (Sep 10 to March 15).

⁶² NH Division, Shillong.

Audit Objective: Whether the internal control mechanism to oversee the TDS process was in place and was adequate?

2.5.8 Internal Control Mechanism

Examination of the various internal controls existent in the Taxation Department for overseeing tax deduction by the Government Departments revealed lack of adequate internal controls which are discussed in the succeeding paragraphs.

2.5.8.1 Absence of a suitable mechanism to monitor compliance of the MVAT provisions by Government departments

As per Rule 41 of the MVAT Rules, all Government departments which deduct tax at source are required to give a certificate showing details on tax deducted to the concerned ST in Form 26.

Out of the 31 Departments selected by audit for test check, 16⁶³ Government departments failed to submit a single certificate in Form 26 showing details of tax deducted by them during the period covered by audit.

Cross verification with the concerned STs revealed that not a single ST maintained a separate register/database to monitor the submission of Form 26 by the departments. As a result, despite non-submission of the certificates, no notices were served to the erring departments by the Taxation Department as the STs were in no position to list out the defaulters.

2.5.8.2 Failure to conduct training/seminars/Workshops

In order to disseminate information on TDS by Government departments in an effective manner, it was imperative that the Taxation Department should hold training programmes or workshops for the Government offices, many of which are in remote locations and are unaware of most or any of the provisions relating to TDS as provided in the MVAT Act and Rules.

During the period covered by audit (2009-10 to 2013-14), not a single training programmes was taken up by the Taxation Department. In respect of PWD, however, three trainings were conducted in 2012-13 and that too at the initiative of the PWD Department. During the same period, audit pointed out 1345 cases of non/short deposition of TDS by the departments and concealment of turnover thereof by the contractors/dealers having a revenue impact of ₹ 8.21 crore. Viewed against this backdrop, lack of initiative by the Taxation Department to sensitise other departments which were not proficient with the Taxation laws especially with the provisions

⁶³ *Health Department: Four units; DIPR; MeECL: Two units; C&RD : 3 Blocks; NEHU; PWD : Three Divisions in Shillong; DGAR, Shillong; MTDC: One unit; Sports Department*

of works contracts can be attributed for TDS related short comings in other departments as far as TDS is concerned.

Recommendation No. 3: *The Taxation Department should conduct workshops and seminars for all the concerned tax deducting departments for creating awareness and capacity building in connection with the correct procedures in respect of TDS.*

2.5.8.3 Absence of database

Although the process of registration of dealers, payment of challans, way-bills administration, transit pass/ transit documents and declaration of 'C' forms had been computerised in the Taxation Department, the Department did not maintain a database of works contractors and Government suppliers. The Department also did not maintain a database of Government departments deducting tax at source from the contractors'/suppliers' bills. In absence of such crucial records, scrutiny/assessments made by the STs would not give a correct picture of tax liability of the contractors/suppliers as there remained ample scope of concealment of turnover by contractors/suppliers with consequent revenue leakage as pointed out in this Report. Lack of initiative by the Taxation Department towards creation of database to capture transactions of Government departments further compounded the problem as the Department had no means of gathering information on work orders issued by other departments to contractors and VAT deducted thereon.

2.5.8.4 Penalties not imposed

Section 90 (xix) of the Meghalaya Value Added Tax, 2003 stipulates that if the DDO fails to deduct tax at source as required under section 106 of the Act, he shall without prejudice to his liability under any law for the time being in force and in addition to the tax or any other dues recoverable under this Act, on conviction, be punishable with simple imprisonment which may extend to six months or with fine not exceeding rupees ten thousand or both. To ensure that the provisions of the Act were adhered to by all DDOs, the Commissioner of Tax in August 2012 directed all departments to carry out deduction of tax at source.

Audit scrutiny of records of three test checked Block Offices⁶⁴ revealed that the DDOs were not deducting VAT at source from the bills. Reasons cited by the DDOs for non-deduction of tax at source was that the scheme money was directly released to the beneficiaries in a number of schemes. Audit scrutiny however revealed that the DDOs were not deducting tax at source even from those bills where works were executed departmentally and materials were being issued to the beneficiaries. Moreover, there was no correspondence by the Community and Rural Development (C&RD) Department asking for remission or clarifications on modalities to be

⁶⁴ Rongram and Selsella blocks in Garo Hills and Myllem block in East Khasi Hills.

adopted for VAT deduction in respect of the schemes introduced at the Block levels. This clearly indicated violation of the provisions of the MVAT Act in deduction of VAT at source on the part of the C&RD Department.

Despite the departments not complying with the Rules regarding deduction of tax at source, awarding of works to unregistered dealers /contractors and not furnishing details to the STs as per the MVAT Act and Rules, no action was taken by the Taxation Department to impose penalty on the erring departments. Absence of initiatives by the Taxation Department to sensitise, clarify doubts and suggest the procedure to be adopted by the departments to boost revenue generation through TDS by way of conducting training/workshops/ seminars points out the lackadaisical attitude of the Taxation Department in this regard.

Recommendation No. 4:

- *The Taxation Department should take action against all the Government departments which fail to submit the TDS information in the prescribed forms.*
- *Strict steps to impose penalties on the defaulting departments, not deducting tax at source, should be taken to ensure regularity and curb revenue loss to the State.*

2.5.9 Other Points of Interest

2.5.9.1 Incorrect application of rate of VAT on Works Contract and unrealistic assessment of taxable turnover

The State Government levies tax on works contract at a uniform rate⁶⁵ of 13.5 per cent after deducting there from, the charges towards labour and services as stipulated in Section 5 of the MVAT Act. Further, it was held⁶⁶ by the Supreme Court of India that the value of the goods involved in the execution of works contract will have to be determined by taking into account the value of the entire works contract and deducting these from the charges towards labour and services. The Apex court also held that the State Legislature is empowered to tax all the goods involved in the execution of a works contract at a uniform rate which may be different from the rates applicable to individual goods because the goods which are involved in the execution of the works contract when incorporated in the works can be classified into a separate category for the purpose of imposing tax.

The work for “2-laning of Nongstoin- Shillong section of NH-44 and Nongstoin-Rongjeng-Tura” road in the State of Meghalaya was awarded to

⁶⁵ Schedule IV attached to the Act.

⁶⁶ *Gannon Dunkerley & Co. Vs State of Rajasthan and Larsen & Toubro Vs Union of India [1993] 88 STC 204 (SC).*

a contractor⁶⁷ in February 2011. As per the terms and conditions of the contract, VAT applicable in respect of works contract was to be levied from the bills of the contractor.

Scrutiny of the bills of the contractor for the period between April 2009 and March 2014 indicated that the company had executed total work value of ₹ 1009.66 crore up to 31 March 2014 on which VAT of ₹ 28.22 crore was deducted at source by the PWD, NH Division, Shillong. The total turnover included exempted sale of ₹ 408.32 crore of items involving only labour such as earthwork, site clearance *etc.* and ₹ 601.34 crore of items involving both materials and labour.

While submitting returns, out of the total work value of ₹ 1009.66 crore, the contractor claimed exempted sale of ₹ 744.19 crore and taxable sale of ₹ 265.47 crore. The ST accordingly calculated (May 2014) the tax liability of the company up to March 2014 at ₹ 28.22 crore. However, no details or accounts of labour and other charges in the contract agreement was available.

The following irregularities were noticed in deduction of tax at source and assessment of VAT by the ST:

(A) Out of sales turnover of ₹ 265.47 crore, VAT at the rate of 5 *per cent* was charged on sales turnover of ₹ 44.68 crore⁶⁸ instead of the rate of 13.5 *per cent*. This resulted in short realisation of VAT of ₹ 3.80 crore⁶⁹.

(B) Since the charges towards labour, services and other like charges in works contract were not ascertainable from the terms and conditions of the contract agreement, the ST irregularly accepted the returns submitted by the company for claiming exempted sale of ₹ 744.19 crore (which was 74 *per cent* of the gross turnover) without ascertaining the actual quanta of exempt sale from the books of accounts of the contractor. The total work value of ₹ 1009.66 crore already included exempted sale of ₹ 408.32 crore on earthwork *etc.* In the absence of detailed accounts, the additional claim of exempt sale on the balance amount of ₹ 601.34 crore by the contractor was irregular and the determination of taxable turnover made by the ST was unrealistic and resulted in under-assessment of taxable turnover of ₹ 335.88 crore⁷⁰ involving revenue of ₹ 34.01 crore.

2.5.10 Conclusion

➤ There were cases of non/short deduction of TDS by the Government departments and concealment of the turnover by the contractors.

⁶⁷ BSC & SC (JV).

⁶⁸ ₹ 29.86 crore pertains to the period from 01.10.11 to 30.09.12 and ₹ 14.62 crore pertains to the period from 01.10.12 to 31.03.14. For ₹ 29.86 crore, loss on VAT was highlighted in the Audit Report (Revenue Sector), Government of Meghalaya for the year ended 31 March 2013.

⁶⁹ 8.5 *per cent* of ₹ 44.68 crore = ₹ 3.80 crore

⁷⁰ ₹ 601.35 crore - ₹ 265.47 crore = ₹ 335.87 crore.

13.50 *per cent* of (75 *per cent* of ₹ 335.87 crore) = ₹ 34.01 crore.

- There was a system failure to prevent unregistered dealers getting works contracts within the State resulting in loss of revenue.
- There were cases of delay in deposit and also non-deposit of VAT deducted at source by the departments.
- There was absence of adequate internal control mechanism in the Taxation Department as observed from not conducting training, seminars and workshops on TDS, weak monitoring of the Government departments, absence of database and also failure of the Taxation Department to take action against departments for not furnishing information on TDS.

2.5.11 Recommendations

In the light of audit findings during the course of audit of TDS, the following recommendations are made with a view to maximising Government revenue:

- The Taxation Department should ensure that all departments deduct tax at specified rates. A mechanism should be in place to facilitate cross-verification of the works executed by contractors and proper deduction and deposit of TDS between Taxation Department and other Government departments.
- The State Government should make it mandatory that all Government contracts are awarded only to dealers/contractors registered in the State.
- The Taxation Department should liaise with all Government departments to ensure that tax deducted is timely and properly deposited into the Government Accounts.
- The Taxation Department should take strict action to impose penalties on the defaulting departments not deducting tax at source. Regular periodical trainings, workshops and seminars should be conducted by the Taxation Department for all the concerned tax deducting departments for creating awareness and capacity building in connection with the correct procedures to be adopted in respect of TDS.

TRANSACTION AUDIT

2.6 Loss of revenue due to assessment not being completed

Failure to carry out timely assessment allowed a dealer to escape the liability to pay tax amounting to ₹ 0.08 crore on which penalty not exceeding ₹ 0.16 crore and interest of ₹ 0.28 crore was not levied.

[ST, Circle-I, Shillong; October 2014]

Under Section 35 of the Meghalaya Value Added Tax (MVAT) Act, 2003 and the Rules made thereunder, every dealer shall submit a quarterly return duly accompanied by the treasury receipt showing the amount of tax payable by him as per the return. Further, under Section 45 of the MVAT

Act if the returns furnished by a dealer are incorrect or if a dealer closes his business then the ST can assess him to the best of his judgement. If a dealer fails to pay the full amount of tax due per quarter, then simple interest at the rate of 2 per cent per month from the end of the month following the quarter is leviable under Section 40 of the MVAT Act. In addition, for non-payment of tax, penalty not exceeding twice the amount of tax involved is also leviable under Section 90 read with Section 96 of the Act *ibid*.

A dealer⁷¹ submitted his returns for the period between May 2005 and March 2008 disclosing a taxable turnover of ₹ 5.60 crore on which tax amounting to ₹ 0.46 crore was leviable; against which, the dealer paid ₹ 0.38 crore thereby resulting in short payment of tax of ₹ 0.08 crore. For non-payment of tax, interest⁷² amounting to ₹ 0.19 crore and penalty not exceeding ₹ 0.16 crore was also leviable. In addition, the dealer belatedly paid the tax for the above mentioned periods with delays ranging between 21 days and 316 days for which he was liable to pay additional interest of ₹ 0.09 crore. The dealer stopped submitting returns after March 2008 and there were no trade related activities in his records⁷³ indicating closure of business.

Despite non-furnishing of returns/furnishing of incorrect returns, no action was taken by the ST to assess the dealer on best judgement basis. Failure of the ST to carry out timely assessment resulted in loss of revenue amounting to ₹ 0.52 crore.

On this being pointed out (December 2014), the ST while admitting the facts (January 2015) stated that the dealer had been assessed on best judgement basis and demand notice for realisation of Government dues amounting to ₹ 0.15 crore had been issued to the dealer. The ST further stated that the dealer had closed his business in 2008 and was presently untraceable.

It would thus be observed that delay in timely completion of assessment by the ST enabled the dealer to escape the liability to pay tax resulting in a loss of revenue to the State exchequer to the said extent.

No further reply in this regard has been received from the Taxation Department, Government of Meghalaya (November 2015).

⁷¹ *M/s Manmall Dungarmall.*

⁷² *Calculated upto March 2015.*

⁷³ *The dealer stopped applying for road permits/'C' forms etc.*

2.7 Loss of revenue due to acceptance of incorrect claim of ITC

A dealer fraudulently claimed ITC of ₹ 3.84 crore on which penalty not exceeding ₹ 7.68 crore and interest amounting to ₹ 5 crore was not realised.

[ST, Circle-I, Shillong; October 2014]

Under the provisions of Section 11 of the MVAT Act, Input Tax Credit (ITC) is allowed to a registered dealer for intra-State purchase of goods intended for re-sale from another registered dealer. ITC is the tax paid by the second dealer while purchasing goods from another dealer in the course of intra-State trade and is allowed as a set-off against the tax payable by the second dealer while making subsequent sale. Further, under Section 11 read with Section 16 of the MVAT Act, for availing ITC a dealer must maintain all evidence in support of such a claim and the burden of proving the eligibility for claiming ITC shall be on the dealer. If a dealer falsely claims ITC, then penalty not exceeding twice the amount of tax involved is leviable under Section 90 read with Section 96 of the Act *ibid*.

A dealer⁷⁴ submitted returns for the period between May 2005 and March 2012 disclosing intra-State purchase of goods valued at ₹ 227.02 crore and claimed ITC of ₹ 3.84 crore on such purchases and accordingly paid the output tax after adjusting the ITC as set-off. However, examination of the dealer's records revealed that the dealer did not provide for any documentary evidence in support of his claim of ITC. As such, the ITC claim was irregular and was liable to be rejected. However, the same was not detected by the ST as he failed to assess the dealer and the case records were left untouched thereby allowing the dealer to avail undue benefit of ITC amounting to ₹ 3.84 crore on which penalty not exceeding ₹ 7.68 crore and interest amounting to ₹ 5 crore (upto March 2015) was leviable. The dealer stopped submitting returns after March 2012 and there were no trade related activities in his records⁷⁵ indicating closure of business.

Despite the dealer with such a high volume of business having stopped furnishing of returns, no action was taken by the ST to assess the dealer on best judgement basis or even to ascertain the status of the dealer's business. Failure of the ST to carry out timely assessment thus resulted in loss of revenue amounting to ₹ 16.52 crore.

On this being pointed out (December 2014), the ST while admitting the facts (January 2015), stated that the dealer had been assessed on best judgement basis and demand notice for realisation of Government dues amounting to ₹ 14.34 crore had been issued to the dealer. The ST further

⁷⁴ M/s K.R. Deb & Sons.

⁷⁵ The dealer stopped applying for road permits/'C' forms etc.

stated that the dealer had long since closed his business and was presently untraceable.

It would thus be observed that delay in completion of assessment by the ST enabled the dealer to irregularly avail ITC benefit resulting in a loss of revenue to the State exchequer to the said extent.

No further reply in this regard has been received from the Taxation Department, Government of Meghalaya (November 2015).

2.8 Loss of revenue due to acceptance of fake declaration forms

Failure of the ST to timely assess a dealer resulted in loss of revenue due to underassessment of tax amounting to ₹ 4.82 crore due to acceptance of fake declaration forms on which penalty not exceeding ₹ 9.64 crore and interest amounting to ₹ 7.76 crore was not levied.

[ST, Circle-II, Shillong; December 2014]

Under the provisions of Section 6A of the Central Sales Tax (CST) Act, 1956 a registered dealer is exempt from payment of tax on stock transfer of goods otherwise than by way of sale if such transfer is supported by a declaration in Form 'F'. Further under Section 8 of the CST Act, a registered dealer is entitled to claim concessional rate of tax of 2 per cent on sale of goods to a registered dealer in course of interstate trade if such transfer is supported by declaration in Form 'C'. If a dealer submits false returns or evades the liability to pay tax, then the ST can assess him to the best of his judgement under Section 45 of the MVAT Act and also levy penalty not exceeding twice the tax evaded under Section 90 read with Section 96 of the Act *ibid*.

For the period between May 2005 and March 2010, an automobile dealer⁷⁶ disclosed stock transfer of goods valued at ₹ 32.13 crore to a dealer⁷⁷ based in Nagaland and claimed full exemption from payment of tax on the stock transfer by submitting 18 declarations in Form 'F'. The dealer also disclosed inter-State sale of goods valued at ₹ 7.83 crore and paid tax amounting to ₹ 0.18 crore at concessional rate by submitting 13 declarations in Form 'C'. After March 2010, the dealer stopped making inter-State transactions by way of sale/stock transfer and also stopped all trade related activities⁷⁸ after June 2012, which indicated closure of his business.

Cross-verification of the declaration forms by audit with the Taxation Department of Nagaland revealed that the declaration forms, submitted by the dealer, had not been issued by the Department at all. As such, the forms were fake and were liable to be rejected by the ST and tax

⁷⁶ M/s Kim Hyundai.

⁷⁷ Only one transaction was shown to a dealer based in Manipur in September 2005.

⁷⁸ The dealer stopped applying for road permits/'C' forms etc.

amounting to ₹ 4.82 crore was to be realised⁷⁹ on which penalty not exceeding ₹ 9.64 crore and interest⁸⁰ amounting to ₹ 7.76 crore was also leviable.

Despite the fact that the dealer did not furnish returns, no action was taken by the ST to assess the dealer on best judgement basis or even ascertain the status of the dealer's business. Failure of the ST to carry out timely assessment and verify the genuineness of the declaration forms thus resulted in loss of revenue amounting to ₹ 22.22 crore.

The case was reported to the Taxation Department, Government of Meghalaya in April 2015; their reply has not been received (November 2015).

2.9 Evasion of tax

A dealer concealed purchase of ₹ 42.79 crore and evaded tax of ₹ 6.37 crore on which penalty not exceeding ₹ 9.56 crore and interest amounting to ₹ 2.93 crore was not levied.

[ST, Circle-II, Shillong; December 2014]

Under Section 11(4) of the Assam (Sales of Petroleum *etc.*) Taxation Act, 1955 (as adapted by Meghalaya) if the ST is not satisfied with the correctness of returns furnished by a dealer, then the ST can assess the dealer to the best of his judgement. Further under Section 16(1)(c) of the Act if the dealer has concealed particulars of his turnover, then the dealer is liable to pay as penalty, in addition to the tax payable, a sum not exceeding one and half times the tax payable. In addition, interest is leviable under Section 20A of the Act *ibid* as follows:

For the first 60 days from the due date ⁸¹	12 per cent per annum
Beyond 60 days from the due date	24 per cent per annum

For the period between April 2012 and December 2013, a dealer disclosed inter-State purchase of 'Motor Spirits' (MS) at ₹ 4.03 crore and 'High Speed Diesel' (HSD) at ₹ 9.32 crore from an oil marketing company⁸² in Assam and the same was accepted and assessed by the ST in May 2014. However, based on information obtained from the Commissioner of Taxes, Meghalaya it was seen that during the same period the dealer actually purchased MS valued at ₹ 17.61 crore and HSD valued at ₹ 38.53 crore.

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Transaction	Amount (₹ in cr.)	Tax @ 12.5 per cent (₹ in crore)
Stock transfer	32.13	4.02
Sale	7.83	0.98
Total	39.96	5
Tax already paid		0.18
Tax to be realised		4.82

⁸⁰ Calculated upto March 2015.

⁸¹ Due date is the end of the month following the quarter.

⁸² Indian Oil Corporation Limited.

While completing the assessments, the ST failed to take into account all connected records which thereby enabled the dealer to conceal purchase of MS worth ₹ 13.58 crore and HSD worth ₹ 29.21 crore resulting in evasion of tax amounting to ₹ 6.37 crore⁸³ on which penalty not exceeding ₹ 9.56 crore and minimum interest⁸⁴ of ₹ 2.93 crore was also leviable.

The case was reported to the Taxation Department, Government of Meghalaya in April 2015; their reply has not been received (November 2015).

2.10 Electricity duty not realised

Failure of the ST to assess the liability of electricity duty on MeECL resulted in electricity duty amounting to ₹ 13.74 crore not being realised on which penalty of ₹ 54.96 crore was not levied.

[ST, Circle-VII, Shillong; February 2015]

The Assam Electricity Duty Act, 1964 (as adapted by Meghalaya) and the Rules made thereunder stipulate that:

- the Meghalaya Energy Corporation Limited (MeECL) shall levy and pay to the State Government a duty called the 'electricity duty' at the rate of six paise per unit of energy supplied to consumers within 15 days or the close of the month to which it pertains. [Section 3(1)(a) & Rule 3];
- the ST shall assess the electricity duty payable and issue a demand notice after a month from the expiry of the half yearly period to which the duty relates [Rule 7 & Rule 6];
- for non-payment of electricity duty, the ST can levy a sum, not exceeding four times the amount of duty, by way of penalty on MeECL [Section 8]; and
- any duty or penalty remaining unpaid by the MeECL shall be recoverable as an arrear of land revenue or by deduction from amounts payable by the State Government to the MeECL [Section 9].

It was seen from the records of the MeECL that the Corporation had been regularly collecting electricity duty from the consumers but failed to deposit the electricity duty to the Government. The Corporation even failed to regularly submit the half yearly returns showing the amount of energy consumed and electricity duty payable thereon. Based on a statement furnished by the MeECL, it was observed that between October 1989 and March 2013, the Corporation realised ₹ 14.42 crore as electricity duty from the consumers against which, it paid only ₹ 0.68 crore to the Government thereby resulting in non-payment of electricity duty amounting to ₹ 13.74 crore. After March 2013, MeECL failed to submit

⁸³ Tax on HSD: 12.5 per cent on ₹29.21 crore = ₹3.65 crore
 Tax on MS: 20 per cent on ₹13.58 crore = ₹2.72 crore
 Total = ₹6.37 crore

⁸⁴ Calculated from the quarter ended December 2013 upto March 2015.

any returns showing the amount of electricity duty collected and any payment made thereof to the Government.

Despite the MeECL failing to deposit the electricity duty collected from the consumers and also failing to submit returns, no action was taken by the ST to either direct MeECL to produce the books of accounts in order to assess the liability or issue demand notices under Rule 6 for payment of the duty which was collected but not deposited or levy penalty on the amount defaulted or even forward the case for initiation of recovery proceedings.

Failure of the ST to take recourse to the provisions of the Act/Rules thus resulted in electricity duty amounting to ₹ 13.74 crore not being deposited on which penalty not exceeding ₹ 54.96 crore was also leviable.

The case was reported to the Taxation Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

2.11 Inadmissible remission of tax

An industrial unit irregularly claimed excess remission on sale of ₹ 2.20 crore resulting in short payment of tax of ₹ 0.11 crore on which penalty not exceeding ₹ 0.22 crore and interest of ₹ 0.05 crore was not levied.

[ST, Nongpoh; September 2014]

Under the Meghalaya Industries (Tax Remission) Scheme, 2006 eligible industrial units⁸⁵ are eligible for remission of tax collected by way of retaining 99 *per cent* of the tax collected on sale of finished goods manufactured by the units not exceeding the installed capacity. Further, under Section 39 of the MVAT Act, each and every return furnished by a registered dealer is subject to scrutiny by the ST to *inter alia* verify the correctness of return and payment of tax thereon. If a dealer prepares incorrect returns, then penalty not exceeding twice the amount of tax involved is leviable under Section 90 read with Section 96 of the Act *ibid*.

An industrial unit⁸⁶ with an installed capacity of 225 MT per annum was granted eligibility for seeking incentives under the Tax Remission Scheme of 2006. For the period between April 2011 and March 2012, the dealer disclosed sale of 458.13 MT of goods valued at ₹ 4.33 crore with tax effect of 0.22 crore on which he claimed tax remission of ₹ 0.21 crore and paid ₹ 0.01 crore as tax to the Government and the same was accepted by the ST during scrutiny in August 2013. However, based on the installed capacity of the unit, remission upto 225 MT valued at ₹ 2.13 crore only

⁸⁵ Units which having fulfilled all the conditions were granted clearance by the Single Window Agency. The Single Window Agency has been set up under the Chairmanship of the Chief Minister to facilitate and expedite clearances for setting up industries in the State.

⁸⁶ M/s W.K. Industries.

was allowable. The unit thus irregularly claimed excess remission on sale of 233.13 MT of goods valued at ₹ 2.20 crore resulting in short payment of tax of ₹ 0.11 crore⁸⁷ on which penalty not exceeding ₹ 0.22 crore and interest of ₹ 0.05 crore was also leviable.

Despite excess claim of remission on sale of goods exceeding the installed capacity, the ST failed to detect the same during scrutiny thereby resulting in short payment of tax to the said extent.

The case was reported to the Taxation Department, Government of Meghalaya in December 2014; their reply has not been received (November 2015).

2.12 Under assessment of tax

Allowance of incorrect rate of tax by the ST and furnishing of revised returns by the dealer with reduced turnover resulted in underassessment of tax amounting to ₹ 0.10 crore on which penalty not exceeding ₹ 0.20 crore and interest⁸⁸ of ₹ 0.05 crore was not levied.

[ST, Nongpoh; September 2014]

In Meghalaya, all residuary items which do not fall under any of the Schedules I to III of the MVAT Act are classified under Schedule-IV of the Act and are taxable⁸⁹ at 13.5 per cent. Accordingly, 'cooked food' being a residuary item is taxed at 13.5 per cent. Under Section 35(5) of the MVAT Act, if a dealer discovers any omission in his return for any quarter then he may furnish a revised return before the expiry of the next quarter. Further, under Section 90(vi) read with Section 96 of the Act *ibid*, if a dealer evades in any way the liability to pay tax then penalty not exceeding twice the amount of tax involved is leviable.

2.12.1 A dealer⁹⁰ dealing in 'cooked food' submitted returns for the period between April 2007 and December 2013 disclosing a total turnover of ₹ 1.13 crore out of which he claimed exempted sale of ₹ 0.66 crore. Despite the dealer not dealing in any exempted goods⁹¹, the ST while scrutinising the returns in April 2013 allowed the claim.

Failure of the ST to check the correctness of return thus resulted in underassessment of tax amounting to ₹ 0.09 crore on which penalty not exceeding ₹ 0.18 crore and interest⁹² of ₹ 0.04 crore was also leviable.

⁸⁷ Tax @ 5 per cent of ₹ 2.20 crore = ₹ 11 lakh.
Remission @ 99 per cent of ₹ 0.11 crore = ₹ 10.89 lakh.
Short payment of tax is the amount remitted i.e., ₹ 10.89 lakh (or ₹ 0.11 crore)

⁸⁸ Calculated upto June 2014.

⁸⁹ 12.5 per cent upto February 2011.

⁹⁰ M/s Makhan Bhog.

⁹¹ The State Government has notified a list of items under Section 8 of the MVAT Act which are exempted from tax.

⁹² Calculated upto June 2014.

2.12.2 It was also observed that the dealer submitted returns for the period between April 2008 and March 2010 disclosing taxable sale of ₹ 0.11 crore. The dealer subsequently submitted revised returns for the above mentioned period by reducing the turnover from ₹ 0.11 crore to ₹ 0.05 crore. Although the returns for every quarter were submitted after a gap of more than sixty days following the next quarter, the same was accepted by the ST at the time of scrutiny (April 2013) thereby resulting in short payment of tax of ₹ 0.008 crore on which penalty not exceeding ₹ 0.02 crore and interest amounting to ₹ 0.01 crore was also leviable.

The dealer stopped submitting all returns after March 2014 which indicated closure of his business. Failure of the ST to check the discrepancies in the returns at the time of scrutiny resulted in loss of revenue amounting to ₹ 0.15 crore.

The case was reported to the Taxation Department, Government of Meghalaya in December 2014; their reply has not been received (November 2015).

2.13 Short levy of interest

A dealer belatedly paid the tax for which ₹ 0.37 crore was leviable as interest against which ₹ 0.01 was levied thereby resulting in short levy of interest amounting to ₹ 0.36 crore.

[ST, Circle-II, Tura; June 2014]

Under Section 35 of the Meghalaya Value Added Tax (MVAT) Act, 2003 and the Rules made thereunder, every dealer shall submit a quarterly return duly accompanied by the treasury receipt showing the amount of tax payable by him as per the return. If a dealer fails to pay the full amount of tax due per quarter, then simple interest at the rate of 2 *per cent* per month from the end of the month following the quarter is leviable under Section 40 of the MVAT Act.

A dealer⁹³ submitted quarterly returns for the period between May 2005 and December 2011 disclosing tax liability of ₹ 58.26 crore and paid the tax belatedly for each quarter with delays ranging between 2 days and 270 days for which he was liable to pay interest of ₹ 0.37 crore. The ST, however, while scrutinising the dealer for the above mentioned period in September 2013 levied interest of only ₹ 0.01 crore thereby resulting in short levy of interest of ₹ 0.36 crore.

On this being pointed out (September 2014), the ST while admitting the facts (November 2014) stated that interest had been re-calculated and notice for payment of interest had been issued to the dealer. A report on realisation of the interest was awaited (November 2015).

⁹³ M/s Premchand Champalal

No further reply has been received from the Taxation Department, Government of Meghalaya (November 2015).

2.14 Concealment of turnover

A dealer concealed turnover of ₹ 37.45 crore on sale of coal and evaded tax of ₹ 1.50 crore on which penalty not exceeding ₹ 3 crore and interest of ₹ 0.33 crore was not levied.

[ST, Circle-II, Tura; June 2014]

In Meghalaya, all dealers engaged in inter-State sale of coal have to obtain 'P' forms on payment of advance tax from the STs which authorise the dealers to transport nine MT of coal per truck. The Commissioner of Taxes in August 2012 revised⁹⁴ the rate of 'P' form from ₹ 1100 per truck to ₹ 1736 per truck by enhancing the sale price of coal from ₹ 3044 per MT to ₹ 4825 per MT.

During the period from January 2014 to March 2014, a dealer⁹⁵ utilised 12013 'P' forms for dispatch of 1.08 lakh MT of coal valued at ₹ 52.11 crore⁹⁶ in course of inter-State trade. The dealer while submitting return for the aforementioned period disclosed sale turnover of only ₹ 14.61 crore which was accepted by the ST at the time of assessments.

Failure of the ST to take into account all available information at the time of assessment, thus, resulted in non-detection of concealed turnover of ₹ 37.50 crore and consequent evasion of tax amounting to ₹ 1.50 crore on which penalty not exceeding ₹ 3 crore and interest of ₹ 0.33 crore was leviable.

The case was reported to the Taxation Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

2.15 Irregular assessment of tax at concessional rate without 'C' form(s)

There was under assessment of tax amounting to ₹ 0.86 crore due to allowance of concessional rate of tax on inter-State sale of coal not supported by 'C' forms on which penalty not exceeding ₹ 1.71 crore and interest of ₹ 0.19 crore was not levied.

[ST, Williamnagar; March 2015]

Under Section 8 of the CST Act, every dealer in the course of inter-State trade can avail concessional rate of tax at 2 per cent if such sale is made to a registered dealer and is accompanied by a declaration in Form 'C'. Else,

⁹⁴ Vide notification No. CTAS-12/2010/1027 dated 03.08.2012

⁹⁵ M/s Santi Coal traders.

⁹⁶ 12013 'P' forms X 9 MT = 1.08 lakh MT
1.08 lakh MT X ₹ 4825 = ₹ 52.11 crore

such sale is taxable at the local rate. In Meghalaya, coal is taxable at 4 *per cent*.

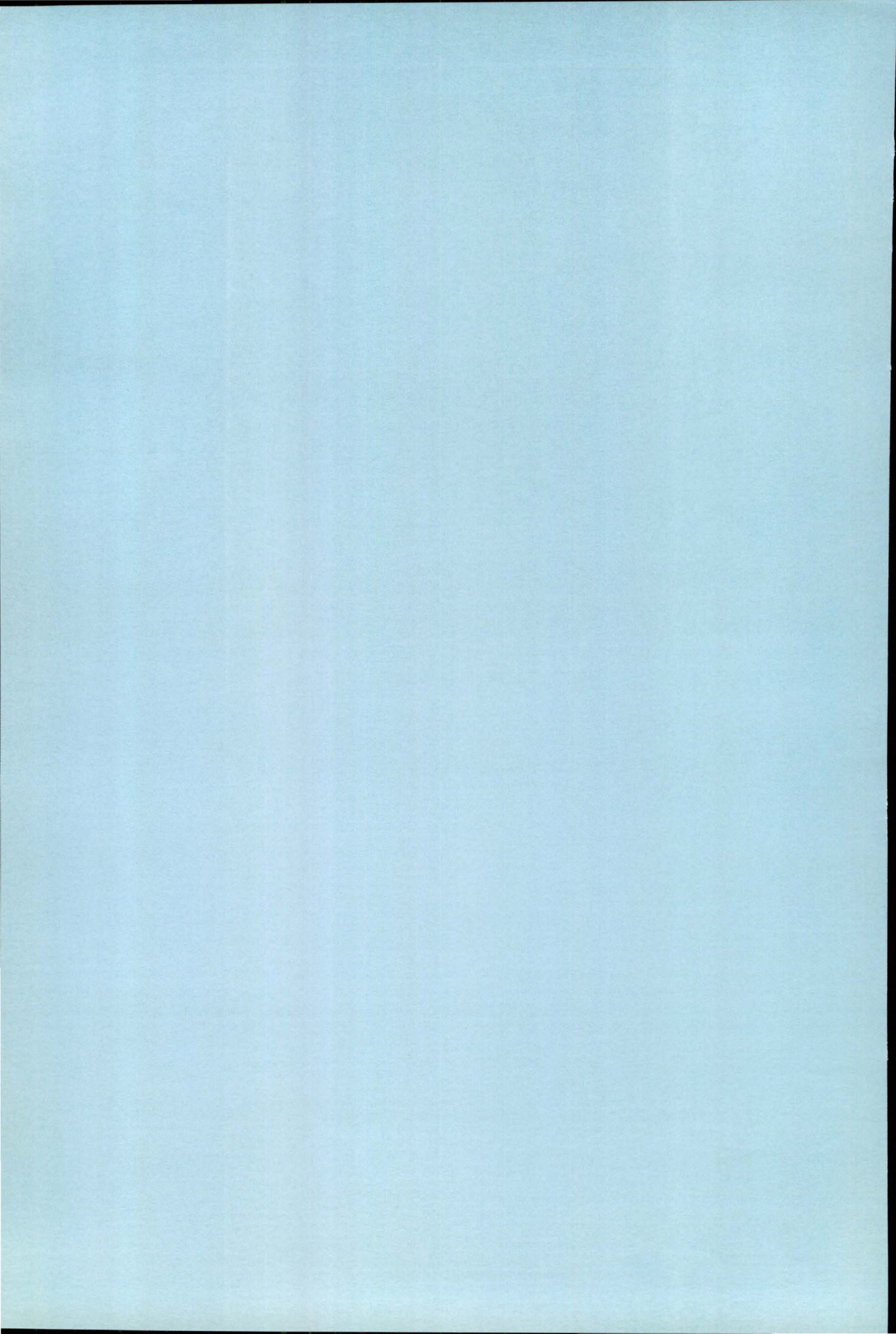
A dealer⁹⁷ submitted return for the period from January 2014 to March 2014 disclosing a turnover of ₹ 42.85 crore and the entire turnover was assessed at the concessional rate of 2 *per cent* by the ST while making assessment in November 2014. Examination of the case records of the dealer, however, revealed that the dealer did not submit any 'C' form(s) for the aforementioned period in support of his claim for assessment at concessional rate of tax.

Failure of the ST to assess the dealer at the full rate of tax despite not having furnished declaration forms, thus, resulted in underassessment of tax of ₹ 0.86 crore on which penalty not exceeding ₹ 1.71 crore and interest of ₹ 0.19 crore was leviable.

The case was reported to the Taxation Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

⁹⁷ *M/s N. Sangma Coal Agency*

CHAPTER-III
STATE EXCISE



CHAPTER-III: STATE EXCISE

3.1 Tax Administration

The Additional Chief Secretary to the Government of Meghalaya, Excise, Registration, Taxation and Stamps (ERTS) Department is in overall charge of the State Excise Department at the Government level. The Commissioner of Excise (CE) is the administrative head of the Department. He is assisted by a Joint Commissioner of Excise and Deputy/Assistant Commissioners of Excise. At the district level, the Superintendents of Excise (SEs) have been entrusted with the work of levy of excise duties and other dues from the licencees such as bonded warehouses, bottling plants, distilleries and retailer shops. The collection of tax is governed by the provisions of the Assam Excise Act, 1910 (as adapted by Meghalaya), the Assam Excise Rules, 1945 (as adapted), the Assam Distillery Rules, 1945 (as adapted) and the Assam Bonded Warehouses Rules, 1965 (as adapted).

3.2 Internal audit

The Excise Department has no separate Internal Audit Wing (IAW). Despite the same being pointed out in the PAs carried out from time to time, no action has been taken by the Department to create an IAW to monitor the working of the Department. In the absence of a separate IAW, the Department solely relies upon the audit carried out by the Accountant General.

Recommendation: *The Department may look into the possibility of creating an Internal Audit Wing to effectively monitor its functioning.*

3.3 Results of Audit

Test check of the records of seven units during 2014-15 revealed non-realisation of duties, fees, etc. involving ₹ 24.00 crore in 54 cases which fall under the following categories:

Table 3.1

			(₹ in crore)
Sl. No.	Category	Number of cases	Amount
1.	Non/Short realisation of duties etc.	24	8.41
2.	Loss of revenue	14	5.09
3.	Other irregularities	16	10.50
Total		54	24.00

During the course of the year, the Department accepted under assessments and other deficiencies of ₹ 0.40 crore in five cases. An amount of ₹ 0.60 crore was realised in 10 cases during the year 2014-15.

A few illustrative cases having financial impact of ₹ 4.58 crore in terms of underassessment/short levy/non-levy of tax and other provisions of the Acts are discussed in the paragraphs 3.4 to 3.9.

3.4 Evasion of excise duty

Three bottling plants fraudulently concealed 2.44 lakh BL of ENA and evaded excise duty of ₹ 3.14 crore.

[SE, Nongpoh; April 2014]

For manufacture of IMFL in a bottling plant, Extra Neutral Alcohol (ENA) is reduced to 75 per cent proof by adding water. Colour and flavour are then added to the product to get the liquor. The standard norm¹ of conversion of ENA per case of liquor is as under:

Size (in millilitres)	Requirement of ENA in Bulk Litres (BL)
180 ml	3.84 (BL)
375 ml	4.00 (BL)
750 ml	

In Meghalaya, excise duty on General Brand of liquor is ₹ 514 per case of 12 bottles of 750 ml or equivalent quantity.

Audit of records of the Superintendent of Excise (SE) revealed that three bottling plants² utilised 57.28 lakh BL of ENA between April 2013 and March 2014 for production of 8.66 lakh cases of liquor containing 750 ml/375 ml and 5.26 lakh cases of liquor containing 180 ml bottles. As per standard norms, for production of the above quantity of liquor, 54.84 lakh³ BL of ENA should have been actually utilised. The bottling plants, thus, fraudulently overstated the quantity of ENA actually utilised, resulting in concealment of 2.44 lakh BL of ENA from which 0.61 lakh cases of liquor of 375 ml/750 ml bottles⁴ could be manufactured.

Despite the monthly figures pertaining to consumption of ENA and production of IMFL therefrom being available with the SE, no steps were taken by the SE to reconcile the difference and ascertain reasons for overconsumption of ENA by the bottling plants. Failure of the SE to properly monitor the functioning of the bottling plants thereby resulted in evasion of excise duty amounting to ₹ 3.14 crore⁵.

¹ Based on information provided by three bottling plants in the State in response to an Audit query.

² (i) M/s North East Bottling Plant (ii) M/s Marwet Bottling Plant (iii) M/s MDH Beverages

³ (8.66 lakh cases X 4 BL) + (5.26 lakh cases X 3.84 BL) = 54.84 lakh BL

⁴ Loss worked out for 375 ml/750 ml bottles only as they have the same excise duty as explained below:

750 ml case = 750 X 12 bottles = 9000 ml = 9 BL

375 ml case = 375 X 24 bottles = 9000 ml = 9 BL.

⁵ 0.61 lakh cases X ₹ 514 = ₹ 3.14 crore.

The case was reported to the Excise Department, Government of Meghalaya in July 2014; their reply has not been received (November 2015).

3.5 Short realisation of excise duty

Short levy of *ad-valorem* duty on cost price resulted in short-realisation of excise duty amounting to ₹ 0.15 crore.

[SEs, Jowai & Williamnagar; November 2014 & February 2015]

Under Section 21 of the Assam Excise Act, 1910 (as adapted by the Government of Meghalaya) the State Government can levy duty on consumption of liquor. The Excise Department, Government of Meghalaya in April 2011 imposed excise duty on Rum⁶ procured and sold under canteen licence at *ad-valorem* rate of 40 *per cent* of the cost price subject to a minimum of ₹ 257 per case of 12 bottles of 750 ml size or equivalent quantity. In Meghalaya, the minimum cost price of Rum was fixed at ₹ 784 per case⁷ with effect from 09 May 2012.

It was observed from the records of the Superintendents of Excise (SEs) pertaining to import of Rum by the Police Canteens that during the period between March 2012 and March 2014, a total of 36810 cases of Rum were imported by the State Police Canteens from different bonded warehouses within the State on which, excise duty amounting to ₹ 1.15 crore was realisable at ₹ 313.60 per case⁸, against which, the SEs realised ₹ 1 crore by charging *ad-valorem* duty at the rate of ₹ 273 per case thereby resulting in short realisation of excise duty amounting to ₹ 0.15 crore. No reasons could be shown by the SEs for charging *ad-valorem* duty at a lower rate despite clear instructions from the State Government as per the notification of April 2011.

Thus, failure of the SEs to conform to Government instructions and realise the prescribed excise duty resulted in short realisation of revenue to the said extent.

The cases were reported to the Excise Department, Government of Meghalaya between December 2014 and March 2015; their replies have not been received (November 2015).

⁶ Rum is a distilled alcoholic beverage made from sugarcane by products, such as molasses, or directly from sugarcane juice, by a process of fermentation and distillation. The distillate, a clear liquid, is then usually aged in oak barrels.

⁷ In respect of all three sizes – 750 ml (12 bottles), 375 ml (24 bottles) and 180 ml (48 bottles)

⁸ 40 *per cent* of ₹ 784 = ₹ 313.60

3.6 Revenue not realised due to retail licences not getting renewed

Forty-four IMFL retail licences failed to renew their licences resulting in revenue amounting to ₹ 0.36 crore not being realised.

[SEs, Tura and Williamnagar; February 2015]

Section 273 of the Assam Excise Act, 1910 (as adopted by Meghalaya) provides that all foreign liquor licences shall be renewed annually by the Commissioner of Excise (CE) on payment of prescribed renewal fee⁹. Further, Section 29 of the Act *ibid* stipulates that if any fee or duty payable by the holder has not been paid, the licence granted may be cancelled.

Audit of records of the SEs revealed that 44 IMFL retail licences¹⁰ did not renew their licences for different periods between 2011-12 and 2014-15. Despite non-renewal of licences and non-payment of licence fees amounting to ₹ 0.36 crore, no action was taken by the SE to issue demand notices to the licencees for payment of the dues. The SE also failed to take timely action to cancel the licences in order to prevent unauthorised operation of these licencees in the State.

No records were available with the SE to prove that the licences had ceased operations and closed their businesses in the State. Thus, failure of the SE to regulate the operations of the licencees within his jurisdiction and take action for violation of the provisions of the Excise Act resulted in non-realisation of revenue of ₹ 0.36 crore.

The cases were reported to the Excise Department, Government of Meghalaya in March 2015; their replies have not been received (November 2015).

3.7 Loss of revenue due to cancellation of licences without realising the outstanding licence fee

Cancellation of six IMFL/Bar licences without realisation of licence fees led to loss of revenue amounting to ₹ 0.07 crore.

[SEs, Khliehriat and Baghmara; November 2014 & March 2015]

The Assam Excise Act, 1910 (as adapted by Meghalaya) and Rules made there under stipulate that:

- all foreign liquor licences shall be renewed annually by the Commissioner of Excise on payment of prescribed renewal fee¹¹ in advance (Rule 273);
- if any fee or duty payable by the holder has not been paid, the licence granted may be cancelled (Section 29);

⁹ ₹ 50000 per annum upto March 2012 and ₹ 60000 per annum thereafter.

¹⁰ Details in *Annexure-III*.

¹¹ ₹ 50000 per annum upto March 2012 and ₹ 60000 per annum thereafter.

- any amount payable to the Government may be recovered from the defaulters by distress and sale of their movable property or as arrears of land revenue (Section 35).

Audit of records of the SEs revealed that five IMFL licencees and one Bar licencee did not renew their licences and pay the renewal fee amounting to ₹ 0.07 crore¹² for various periods between 2005-06 and 2012-2013. Despite, non-payment of licence fee, no action was taken by the SE and the CE for recovery of Government dues as arrears of land revenue. The CE, instead, forwarded the cases to the Government for cancellation of licences and the ERTS Department accordingly cancelled the licences of all the six defaulters between April 2009 and September 2012.

Thus, failure of the SE and the CE to take timely action to realise the licence fee or recover Government dues as arrears of land revenue resulted in cancellation of licences without realisation of licence fees of ₹ 0.07 crore and consequent loss of revenue to that extent.

The cases were reported to the Excise Department, Government of Meghalaya between March 2014 and March 2015; their replies have not been received (November 2015).

3.8 Security Deposit not realised

The Department failed to realise Security Deposit of ₹ 0.34 crore from 30 companies/Bonded Warehouses/distilleries/IMFL licencees.

[CE, Shillong and SE, Tura; July 2014 & January 2015]

Under Rule 246 of the Meghalaya Excise Rules, a security in the form of Fixed Deposit valid for 5 years (to be pledged in favour of the CE, Meghalaya) was to be furnished by each bonded warehouse, IMFL licencee and company manufacturing IMFL, Wine and Beer as a guarantee for due observance of the terms and conditions of the licence and prompt payment of licence fees. The Government of Meghalaya fixed¹³ the rate of Security Deposit (SD) as under:

Bonded Warehouses/Distilleries	₹ 300000	
IMFL retail licencees	₹ 50000	
Companies	IMFL (₹)	Beer (₹)
Companies selling more than 50,000 cases per year	500000	300000
Companies selling less than 50,000 cases per year	250000	200000
	Wine (₹)	Bottled In Origin (₹)
Companies selling above 5,000 cases per year	200000	100000
Companies selling below 5,000 cases per year	100000	50000

¹² Details in Annexure-IV.

¹³ July 2009 for Bonded warehouses & retail licencees and October 2010 for companies.

3.8.1 Audit of records of the CE, Meghalaya revealed that 16 companies/bonded warehouses did not pay the SD amounting to ₹ 0.27 crore. The CE, however, did not issue any demand notice to any of the defaulters for payment of SD, which thereby resulted in non-realisation of the same to that extent.

3.8.2 Audit of records of the SE, Tura, revealed that 14 IMFL licencees¹⁴ did not pay the SD amounting to ₹ 0.07 crore¹⁵. The SE, however, did not issue any demand notice to any of these defaulters for payment of SD, which thereby resulted in non-realisation of the same to that extent.

Thus, due to inaction of the CE and the SE, the companies/bonded warehouses did not pay the SD, which was fraught with the risk of loss of revenue in case of default in future payment of licence fee or violation of other provisions of the Excise Act by any of the companies/bonded warehouses.

The cases were reported to the Excise Department, Government of Meghalaya between March 2015 and July 2015; their replies have not been received (November 2015).

3.9 Revenue not realised due to failure to register brand names

Twenty-five distilleries/companies failed to register the brand names of 115 brands resulting in revenue amounting to ₹ 0.52 crore not being realised.

[CE, Meghalaya; July 2014]

Under Rule 363(1) of the Meghalaya Excise Rules, no person can sell IMFL, beer and Bottled-in-Origin products in the State unless the brand name and the label of that product are registered with the CE. The registration is valid upto 31 March of the next year after which it may be renewed on payment of prescribed fees. The Government of Meghalaya in June 2012 notified¹⁶ the revised fees for registration from ₹ 45,000 to ₹ 60,000 in case of IMFL brands and from ₹ 22,000 to ₹ 35,000 in case of beer.

Audit of records of the CE revealed that registration of 125 brands manufactured by 25 distilleries/companies¹⁷ were not renewed for the year

¹⁴ (1) Mose P. Sangma, (2) Mimod Rabha, (3) Debashish R. Marak, (4) Grinath M. Marak, (5) Baljeng Sangma, (6) Medina Ch. Marak, (7) Prenson D. Sangma, (8) Reuben Dk. Marak, (9) Bas Kumar Rabha, (10) Chenang K. Sangma, (11) Nidharson A Sangma, (12) Devendra Jain, (13) Badith T. Sangma and (14) Adam Kuro K. Marak.

¹⁵ 14 IMFL licenses X ₹ 50000 = ₹ 700000

¹⁶ Vide notification No. ERTS (E) 24/2008/34-36 dated 15.06.2012

¹⁷ Details of names including calculation in Annexure V.

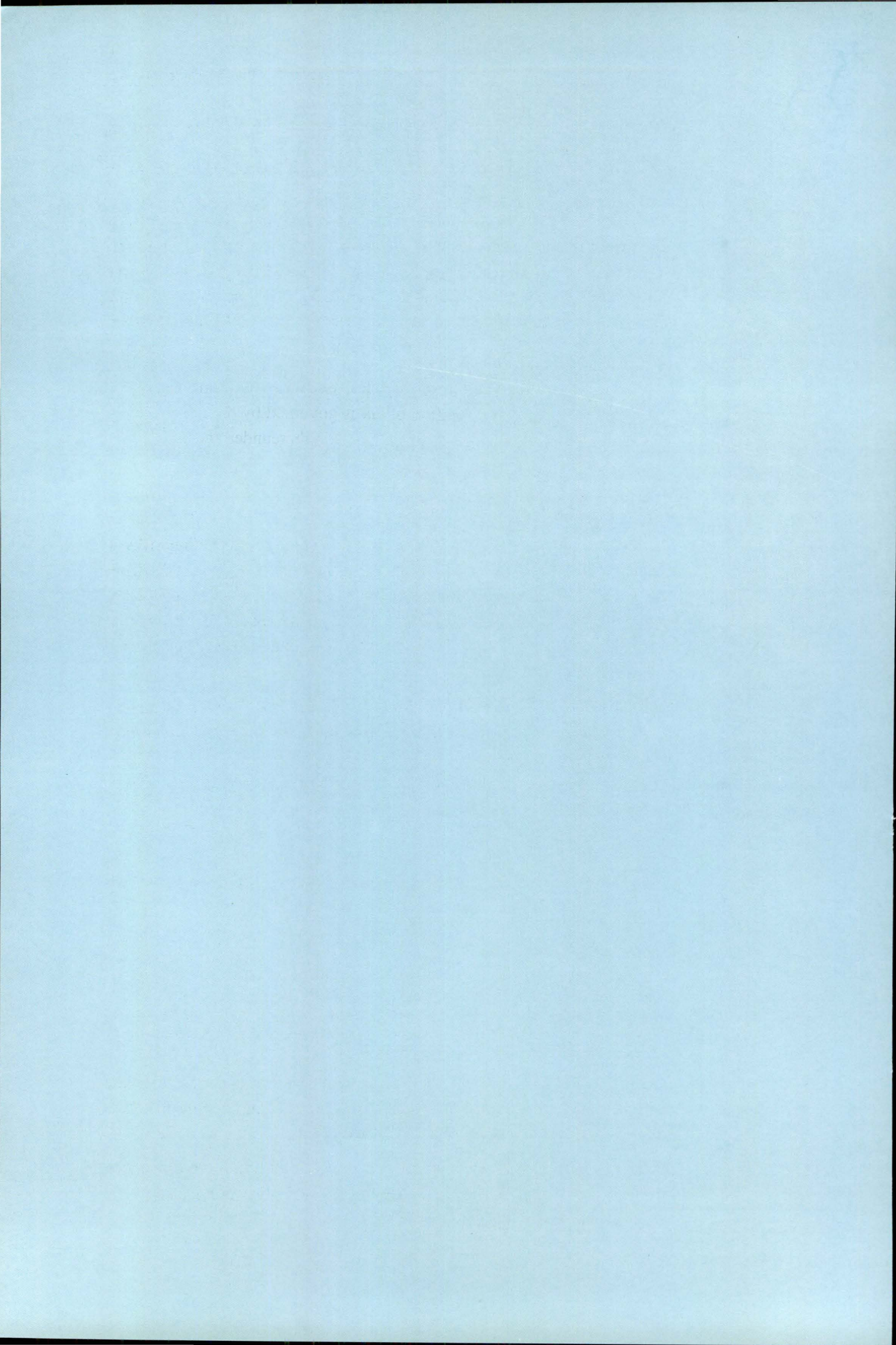
2015-16 although the distilleries and companies were required to apply for re-registration of the brand names before the last day of the preceding year. Despite non-renewal of brand names, no action was taken by the CE to either issue demand notices to the distilleries/companies for renewal of the brand names or cancel the brand names in order to prevent their import and sale within the State. Thus, lack of timely action by the CE resulted in revenue amounting to ₹ 0.52 crore not being realised as registration fees. Besides, there was a risk of unregistered products being sold in the State in violation of the provisions of the Excise Rules.

The case was reported to the Excise Department, Government of Meghalaya in July 2014; their reply has not been received (November 2015).



CHAPTER-IV

MOTOR VEHICLE RECEIPTS



CHAPTER-IV: MOTOR VEHICLE RECEIPTS

4.1 Tax Administration

The Principal Secretary to the Government of Meghalaya, Transport Department is in overall charge of the Transport Department at the Government level. The Commissioner of Transport (CT) is the administrative head of the Department. He is assisted by an Assistant Commissioner of Transport and the Secretary, State Transport Authority. At the district level, the District Transport Officers (DTOs) have been entrusted with the registration of vehicles, issuance of permits including collection of duties. The collection of tax is governed by the provisions of the Motor Vehicles Act, 1988 and Rules made thereunder and the Assam Motor Vehicle Taxation Act, 1936.

4.2 Internal audit

The Transport Department has no separate Internal Audit Wing (IAW). Despite the same being pointed out in Audit Reports and the PAs from time to time, no action has been taken by the Department to create an IAW to monitor the working of the Department. In the absence of a separate IAW, the Department solely relies upon the audit carried out by the Accountant General.

Recommendation: *The Department may urgently look into the possibility of creating an Internal Audit Wing to effectively monitor the functioning of the Department.*

4.3 Results of Audit

Test check of the records of seven units relating to the Transport Department during 2014-15 revealed non-realisation of taxes, fees and fines, etc. involving ₹ 138.84 crore in 44 cases which fall under the following categories:

Table 4.1

Sl. No.	Category	Number of cases	(₹ in crore)
			Amount
1.	Non/Short realisation of revenue	24	30.78
2.	Loss of revenue	05	27.42
3.	Other irregularities	15	80.64
Total		44	138.84

During the course of the year, the Department accepted under assessments and other deficiencies of ₹ 87.76 crore in 20 cases. An amount of ₹ 0.29 crore was recovered during the year 2014-15.

A few illustrative cases having financial impact of ₹ 45.55 crore in terms of underassessment/short levy/non-levy of tax and other provisions of the Acts are discussed in the paragraphs 4.4 to 4.8.

**4.4 Loss of revenue from leases/annual lease amounts not renewed/
revised**

Due to undue benefit granted to three weighbridge lessees and leases of six other weighbridges not being renewed, there was a loss of revenue of ₹ 6.90 crore.

[CT, Meghalaya; June 2014]

As per Section 138(2)(b) of the Motor Vehicles Act, the State Government can make rules for installation and use of weighing devices. Accordingly, the Government of Meghalaya enacted the Meghalaya Installation, Regulation, Maintenance and Operation of Weighbridge Rules, 2009¹ under which, private parties were allowed to operate weighbridges on behalf of the Transport Department on payment of a lump sum annual lease amount to the Department as agreed upon. The annual lease amount was calculated² on the basis of the weighment fee of ₹ 30 per truck. The Government, subsequently enhanced the weighment fee to ₹ 50 per truck with effect from 08 January 2010 which was further revised to ₹ 200 per truck from 20 January 2015. Ten³ private parties were granted licences to operate ten weighbridges in the State on various dates between 2007-08 and 2009-10 for a period of two to three years on payment of annual lease amounts ranging between ₹ 2.50 lakh and ₹ 75 lakh.

The Government of Meghalaya in a meeting in June 2010 decided to set up an integrated check post at the exit point of National Highway (NH)⁴-62. Consequently all the existing weighbridges on NH-62 were to be allowed to operate till the term of their current leases and thereafter, no further extension was to be given. Out of the ten weighbridges, only two⁵ weighbridges were located on NH-62.

The leases of all the weighbridges expired on various dates between 2009-10 and 2011-12 of which, two⁶ lessees did not apply for renewal while none of the remaining eight leases were renewed in the light of the decision taken in June 2010. However, three⁷ out of the eight weighbridges were allowed to continue operation on the basis of a Supreme Court order⁸ dated 21 June 2012.

While allowing the three weighbridges to issue weighment slips at the revised rates of ₹ 50 and ₹ 200 per truck, the Transport Department failed to take any action to revise the annual lease amounts in respect of any of

¹ In lieu of the erstwhile Office Memorandum for Operation of Weighbridges, 2003.

² The lease amount was calculated on the basis of the number of trucks passing through the checkgate multiplied by ₹ 30 per truck (being the prevailing weighment fee).

³ Details of the weighbridges in **Annexure – VI**.

⁴ NH from Dalu (South Garo Hills District in Meghalaya) to Damra (Goalpara District in Assam).

⁵ Dobu Weighbridge and Momin Weighbridge.

⁶ Shallang weighbridge and Athiabari weighbridge.

⁷ Umling Weighbridge (NH-44), 7th Mile Weighbridge (NH-40) and Momin Weighbridge (NH-62).

⁸ SLP (CC) 9966 of 2012 (All North East Commercial Truck Owners & Operators Association v/s State of Meghalaya).

the three weighbridges thereby resulting in undue benefit to the tune of ₹ 4.62 crore⁹ to these weighbridges which was a loss of revenue to that extent.

In respect of the remaining five weighbridges, although only one¹⁰ out of them was situated on NH-62, yet the Transport Department rejected the applications for renewal of the other four weighbridge operators citing the Government decision of June 2010. The Transport Department, by erroneously taking the Government decision to not renew the weighbridges only on NH-62 and applying it to all other weighbridges in the State, caused a further revenue loss of ₹ 1.99 crore¹¹.

Although the Department continued to reject the applications for renewal of weighbridge operators in view of setting up of an integrated check post on NH-62, the same was also yet to be set up and no progress had been made at all in this regard (July 2015). There was thus an additional loss of revenue of ₹ 0.29 crore¹² due to the lease of the weighbridge¹³ located in NH-62 not being renewed.

The case was reported to the Transport Department, Government of Meghalaya between March and July 2015; their reply has not been received (November 2015).

4.5 Loss of revenue due to under-reporting of overloaded vehicles

The Enforcement Branch failed to detect movement of 45753 trucks carrying load in excess of the permissible limit resulting in short realisation of fine amounting to ₹ 28.35 crore.

[DTO, EB, Shillong; May 2014]

Section 194(i) of the Motor Vehicles (MV) Act, 1988 states that whoever drives motor vehicles carrying loads in excess of the permissible limit shall be punishable with a minimum fine of ₹ 2000 plus an additional fine of ₹ 1000 per Metric Tonne (MT) of excess load together with the liability to pay charges for off-loading of the excess load. In pursuance of the Supreme Court order¹⁴ dated November 2005, the Government of

⁹ Calculated upto March 2015. Calculation in Annexure-VI (A).

¹⁰ Dobo weighbridge.

¹¹ Calculated upto March 2015. Calculation in Annexure-VI (B).

¹²

Name of the weighbridge	Annual Rate (in ₹)	From	To	New Lease amount	Period (in days)	Amount non-realised (in ₹)
Dobu	8,00,000	01/09/2013	19/01/2015	13,33,333	505	1844748
		20/01/2015	31/03/2015	53,33,333	70	1022831
TOTAL						2867579

¹³ Out of two weighbridges located on NH 62 only one (Dobo weighbridge) was not renewed. The other one (Momin weighbridge) was functioning based on Supreme Court's orders as already stated.

¹⁴ Supreme Order dated 9- 11-2005 in WP(C) 126 of 2006.

Meghalaya (GOM) in July 2011 fixed the maximum permissible load for commercial trucks (with two axles) at 9 MT per truck.

In order to detect and penalise vehicles carrying loads in excess of the legal permissible limit, the Transport Department enacted the Meghalaya Installation, Regulation, Maintenance and Operation of Weighbridge Rules, 2009 which provides for establishment of weighbridges at all major exit points of the State. The weighbridge Rules *inter alia* stipulate that:

- each weighbridge shall be supervised by an Enforcement Inspector in order to check and penalise vehicles carrying excess load (*Rule 9*); and
- a monthly statement of details of vehicles checked is to be submitted to the Commissioner of Transport (CT) by the weighbridge operator (*Rule 10(f)*).

It was seen from the offence case registers that between 01 April 2014 and 31 March 2015, the Enforcement Branch (EB), Shillong detected 6,655 trucks carrying 0.48 lakh MT of minerals in excess of the permissible limit of 9 MT at three¹⁵ checkpoints and realised ₹ 6.17 crore as fine. However, cross-checking with the records of the DMR checkgates¹⁶ situated at the same locations revealed that during the same period, 52,408 trucks passed through the DMR check posts carrying 2.40 lakh MT¹⁷ of minerals in excess of the permissible limit. Thus, the DTO, EB by under reporting excess load of 1.92 lakh MT carried by 45,753 trucks and failing to realise penalty amounting to ₹ 28.35 crore¹⁸ caused a revenue loss to the State exchequer to that extent.

Audit observed that the detection of excess load by the DMR checkgates was on the basis of weightment slips issued by the weighbridges under the control of the Transport Department. The fact that this information was supposed to be available with the CT, despite which, no action was taken by the CT to fix responsibility on the DTO, EB for such massive under reporting indicated weak monitoring by the CT of his subordinate officers. Failure of the CT to monitor the functioning of his subordinate officers thus resulted in recurring loss of revenue to the Government as was pointed out in the Audit Reports¹⁹ year after year.

¹⁵ Dainadubi Umkiang and Athiabari.

¹⁶ The Directorate of Mineral Resources (DMR), Meghalaya also has established check posts at all major exit routes of the State in order to detect irregular export of minerals without payment of royalty.

¹⁷ Coal : 210300 MT
Limestone : 35226 MT
Total : 245526 MT

¹⁸ 45753 trucks X ₹2000 = ₹9.15 crore
1.92 lakh MT X ₹1000 = ₹19.20 crore
Total = ₹28.35 crore

¹⁹ Between 2006-07 and 2013-14, six Audit Paragraphs on short detection/non detection of excess load by the Transport Department have featured in the Audit Reports having a financial impact of ₹1558.63 crore.

The case was reported to the Transport Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

4.6 Short realisation of road tax

Irregular registration of commercial trucks as private carriers resulted in short realisation of road tax amounting to ₹ 1.06 crore.

[DTO, Shillong; June 2014]

In exercise of the powers conferred by Section 41(4) of the MV Act, the Government of India has specified "Goods Carrier Trucks²⁰" as Transport Vehicles²¹ with effect from 05 November 2004. Further under Section 4 of the Assam motor Vehicles Taxation Act, 1936 (as adapted by Meghalaya) the annual road tax for goods carrying vehicles with gross laden weight between 07 MT and 12 MT was fixed at ₹ 4500 plus ₹ 150 for every additional MT beyond 07 MT. In Meghalaya, the maximum carrying capacity is 9 MT²² per truck.

It was observed from the vehicle registration records that 4,573 trucks were irregularly allowed by the DTO to be registered as private carriers between April 2009 and March 2015, instead of being registered as goods carriers. By incorrectly classifying goods carriers as private vehicle, the DTO realised road tax of ₹ 1.00 crore instead of ₹ 2.06 crore²³ thereby resulting in short realisation of road tax amounting to ₹ 1.06 crore.

The case was reported to the Transport Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

4.7 Short levy of fine on trucks carrying loads in excess of the permissible limit

Two DTOs realised ₹ 0.48 crore, as fine from 2415 trucks carrying excess load, instead of ₹ 0.72 crore resulting in short levy of fine of ₹ 0.24 crore.

[DTOs, Williamnagar & Baghmara; February & March 2015]

Section 194 read with Section 113 of the Motor Vehicles (MV) Act, 1988 states that whoever drives a motor vehicle with laden weight in excess of the permissible limit²⁴ shall be punishable with minimum fine of ₹ 2000 per truck plus and an additional fine of ₹ 1000 per metric tonne (MT) of the excess load. In Meghalaya, the maximum legal permissible load for commercial trucks is 9 MT per truck.

²⁰ Goods Carrier Trucks are Commercial Trucks which carry goods on payment of money.

²¹ Transport Vehicles are those which ply for hire.

²² Vide a Supreme Court order dated September 2006.

²³ 4573 trucks X ₹4500 = ₹2.06 crore.

²⁴ Laden weight is to be prescribed by the State Government.

It was observed from the offence case registers maintained by the DTOs that between January 2010 and March 2014, the DTOs detected 2415 trucks carrying loads in excess of 9 MT for which minimum fine amounting to ₹ 0.72 crore was leviable²⁵ against which, the DTOs realised ₹ 0.48 crore. While realising the fines, the DTOs did not record the excess load actually carried by the trucks. Thus, failure of the DTOs to record the exact weight and realise the applicable fine resulted in minimum short levy of ₹ 0.24 crore.

The cases were reported to the Transport Department, Government of Meghalaya in March 2015; their replies have not been received (November 2015).

4.8 Revenue not realised on account of failure to renew certificates of registration of private vehicles

Registration certificates of 22717 private vehicles were not renewed, resulting in registration fess amounting to ₹ 4.46 crore not being realised, on which, penalty amounting to ₹ 4.54 crore was also leviable.

[DTO, Shillong; June 2014]

Section 41(7) of the MV Act lays down that the certificate of registration in respect of a motor vehicle other than a transport vehicle shall be valid for a period of 15 years from the date of issue of such registration and shall be renewable as per provision of the Act *ibid*. Under Rule 44 of the Assam Motor Vehicle Rules (as adopted by Meghalaya), the DTO shall maintain a register of all the vehicles in Form III known as the Combined Register in which detail of every registered vehicle shall be maintained and periodically review the same. Further, Section 192 of the MV Act prescribes that whosoever drives or causes to drive a motor vehicle without registration shall be penalised for the first offence with fine which may extend to ₹ 5000 but shall not be less than ₹ 2000. The Transport Department, Government of Meghalaya fixed the fees for re-registration of the private vehicles with effect from 08 September 2011 as follows:

Types of vehicles	Re-registration fees (₹)
Two wheelers	60
Three/four wheelers	200

Section 8 and 9 of the Assam Motor Vehicles Taxation Act, 1936 however, provides for surrender of certificate of registration by the owner of a vehicle (and exemption from payment of tax to that extent) by submitting a declaration in Form 'H' if the vehicle is off-road for a period exceeding three months.

²⁵ The quantity of excess load is not mentioned. Hence additional fine calculated at ₹ 1000 per truck for one MT.

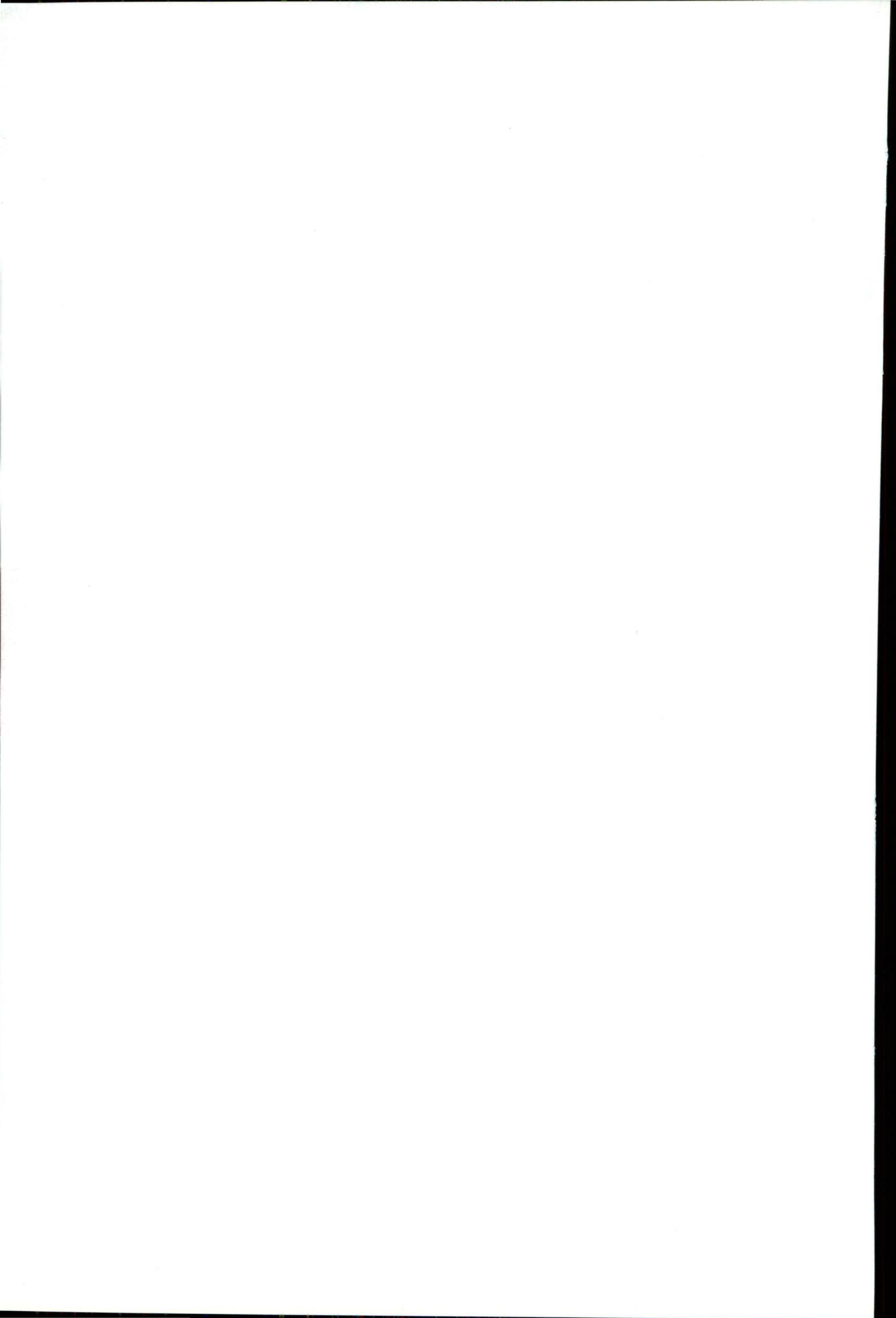
Audit of records of the DTO revealed that the certificates of registration in respect of 22717 private vehicles had expired between January 1990 and December 2014 but the same had not been renewed. It was also noticed that none of the vehicles were off-road on the basis of declarations in Form 'H'. Despite the information being available²⁶ with the Department, no action was taken by the DTO to issue notices to these vehicle owners for re-registration of the vehicles and levy fine on them. Thus, failure of the DTO to re-register the vehicles led to re-registration fees amounting to ₹ 4.46 crore²⁷ not being realised. In addition, fine amounting to ₹ 4.54 crore²⁸ was also realisable but was not realised.

The case was reported to the Transport Department, Government of Meghalaya in June 2015; their reply has not been received (November 2015).

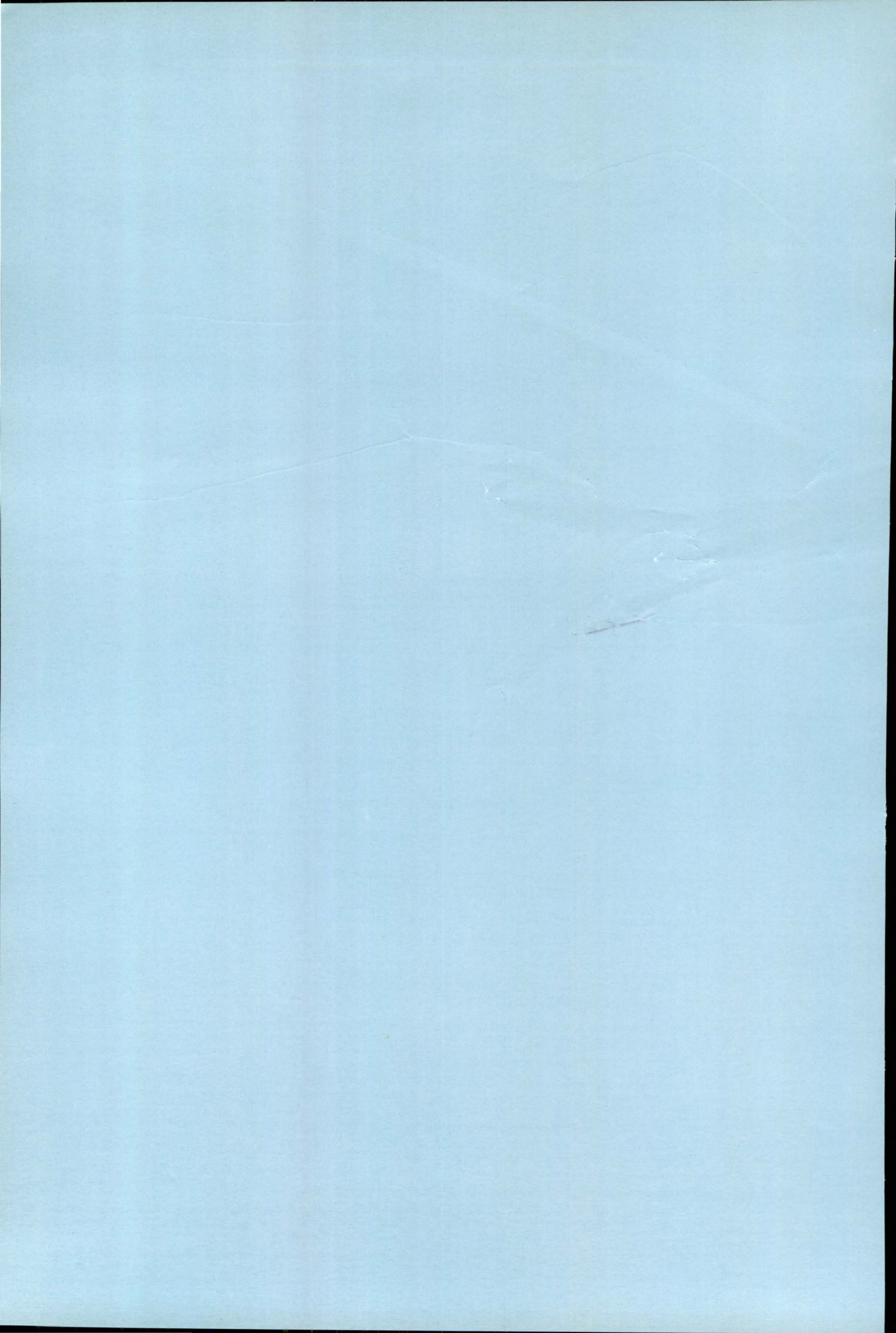
²⁶ All information pertaining to a vehicle is captured and available in real-time with the DTO through a software called 'VAAHAN'.

²⁷ Calculation shown in Annexure – VII.

²⁸ 22717 vehicles X ₹2000 = ₹4,54,34,000.



CHAPTER-V
FOREST RECEIPTS



CHAPTER-V: FOREST RECEIPTS

Part-A: Revenue Receipts

5.1 Tax Administration

The Principal Secretary to the Government of Meghalaya, Forests & Environment Department is in overall charge of the Department at the Government level. The Principal Chief Conservator of Forests (PCCF) is the administrative head of the Department. He is assisted by a host of Chief Conservators of Forests and Conservator of Forests. At the district level, the Divisional Forest Officers (DFOs) are entrusted with management of forests and wildlife through various divisions such as territorial, wildlife, social forestry *etc.* including levy of forest dues wherever applicable. The collection of forest revenue is governed by the provisions of the Assam Forest Regulation, 1891.

5.2 Internal audit

The Forests & Environment Department has no separate Internal Audit Wing (IAW). Despite the same being pointed out in the PAs carried out from time to time, no action has been taken by the Department to create an IAW to monitor the working of the Department. In the absence of a separate IAW, the Department solely relies upon the audit carried out by the Accountant General.

Recommendation: *The Department may urgently look into the possibility of creating an Internal Audit Wing to effectively monitor the functioning of the Department.*

5.3 Results of Audit

Test check of the records of ten units relating to the Forests & Environment Department during 2014-15 revealed under-assessment of tax and other irregularities involving ₹ 45.77 crore in 79 cases which fall under the following categories:

Table 5.1

Sl. No.	Category	Number of cases	(₹ in crore)
			Amount
1.	Non/Short realisation of revenue	18	12.76
2.	Loss of revenue	26	18.56
3.	Other irregularities	35	14.45
Total		79	45.77

During the course of the year, the Department accepted under assessments and other deficiencies of ₹ 25.27 crore in 55 cases. No recovery was intimated in any of the cases during the year 2014-15.

A few illustrative cases having financial impact of ₹ 46.85 crore in terms of short/non-realisation of revenue are discussed in the paragraphs 5.4 to 5.8.

5.4 Loss of revenue due to short realisation of export fee

Failure of the DFO to take timely action against a Forest Beat office resulted in loss of revenue due to short realisation of export fee amounting to ₹ 0.22 crore.

[DFO, Territorial Division, Shillong; October 2014]

As per Section 40 of the Assam Forest Regulation, 1891 (as adopted by the Government of Meghalaya) the State Government can issue passes to regulate the movement of forest produce and fix the fees for issue of such passes. The Forest Department, Government of Meghalaya in October 1999 fixed the fees for export of all forest produce outside the State at a uniform rate of ₹ 300 per truck. Subsequently, in October 2013, the Department re-fixed the fees for export of different forest produce outside the State as shown below:

Type of forest produce	Fee per truck (in ₹)
<i>Tezpatta</i>	60
Cinnamon bark	300
Broomstick	500
Bamboo and minor minerals	1000
Firewood/sawn timber/timber	5000

From the records pertaining to realisation of export fees in the Divisional Forest Officer (DFO), Khasi Hills Territorial Division, Shillong it was observed that between April 2013 and November¹ 2013, the officer in charge of Byrnihat Forest Beat office issued 40,947 Transit Passes (TPs) for export of forest produce and sawn timber outside the State on which export fee amounting to ₹ 2.13 crore was realisable, against which, the officer in charge realised export fee of ₹ 1.91 crore on account of applying lower rates² in respect of sawn timber resulting in short realisation of export fee of ₹ 0.22 crore. Despite the information being available with the Division³, no action was taken by the DFO to direct the Beat office in charge to realise export fee as per prescribed rates. Thus, inaction of the DFO to initiate timely action resulted in loss of revenue to that extent.

The case was reported to the Forest and Environment (F&E) Department, Government of Meghalaya (GOM) in November 2014; their reply has not been received (November 2015).

¹ After November 2013, the checkgate realised export fee as per prescribed rates.

² The DFO realised export fee for sawn timber at various rates ranging between ₹ 200 and ₹ 5000.

³ The check gate in charge sends monthly details of transit passes issued and revenue realised to the DFO.

5.5 Short realisation of revenue

There was short realisation of revenue amounting to ₹ 2.37 crore by the user departments.

[DFO, Territorial Division, Shillong; October 2014]

The Forest & Environment (F&E) Department, GOM through a notification dated 12 November 1998 fixed the rate of royalty on sand, stone and earth at ₹ 30, ₹ 80 and ₹ 32 per cubic metre (cu. m.) respectively. In Meghalaya, all user departments⁴ utilising minerals for execution of works contracts are responsible for deduction of royalty from the contractors and depositing of the same to the concerned forest divisions.

From the records pertaining to payment of royalty by the user departments in the DFO, Khasi Hills Territorial Division, Shillong it was observed that 471336.77 cu. m. of stone, 114643.36 cu. m. of sand and 11941.44 cu. m. of earth were extracted and utilised for various works by the contractors of the Executive Engineer (EE), Public Works Department (Roads), Nongpoh Division between March 2013 and June 2014 on which royalty amounting to ₹ 4.15 crore⁵ was realisable. However, the Division realised only ₹ 1.78 crore as royalty recovered from the contractors' bills and forwarded the same to the DFO. Despite the information being available with the Division, no steps were taken by the DFO to direct the EE to recover the balance royalty of ₹ 2.37 crore from the contractors and deposit the same to the Division thereby resulting in short realisation of royalty to that extent. These amounts should be recovered from the future bills of the contractors.

The case was reported to the F&E Department, GOM in November 2014; their reply has not been received (November 2015).

⁴ Works Departments like Public Works Department, Public Health Engineering Department etc. which undertake works on behalf of the Government.

⁵

Minor mineral	Quantity	Rate (₹)	Royalty (₹)
Stone	471336.77	80	37706941.60
Sand	114643.36	30	3439300.80
Earth	11941.44	32	382126.08
Total			41528368.48

5.6 Evasion of royalty on limestone

Due to lack of co-ordination between Government Departments, 34 exporters/companies concealed 3.77 lakh MT quantity of limestone actually consumed/exported thereby resulting in evasion of royalty of ₹ 1.91 crore.

[DFO, Territorial, Jowai & PCCF, Meghalaya; July & October 2014]

The Mining & Geology (M&G) Department, GOM revised⁶ the rate of royalty on limestone from ₹ 45 to ₹ 63 per Metric Tonne (MT) with effect from 28 September 2010. In Meghalaya, the F&E Department realises royalty on limestone from non-mining lease areas while the M&G Department realises royalty from mining lease areas.

5.6.1 It was observed that the Directorate of Mineral Resources (DMR), Meghalaya forwarded (June 2013) to the PCCF a list of 48 exporters who exported limestone to Bangladesh during the period from April 2009 to February 2010 through the Land Custom Station at Bholaganj for confirmation of payment of royalty. The list was compared with the list of exporters available with the Forest Department and it was seen that 31 exporters out of these 48 exporters exported limestone through the Forest check gate at Bholaganj on payment of forest royalty.

Examination of the list furnished by the DMR to the PCCF revealed that during the period⁷ from April 2009 to February 2010, 2.76 lakh MT of limestone was exported by the 31 exporters⁸ through the Land Custom Station at Bholaganj, against which, the Forest check gate at Bholaganj recorded export of 0.18 lakh MT of limestone during the same period, thereby resulting in non-recording of export of 2.58 lakh MT of limestone and consequent evasion of royalty amounting to ₹ 1.16 crore⁹. Despite the information relating to actual quantity exported to Bangladesh being available with the Department, no action was initiated by the PCCF to realise the additional revenue from the exporters or fix responsibility on the concerned officials for dereliction of duty resulting in evasion of Government revenue of ₹ 1.16 crore. Audit observed that due to absence of proper co-ordination between Government Departments, the evasion of royalty was not detected.

On this being pointed out (November 2014), the PCCF stated (February 2015) that the matter would be taken up with the Land Custom Station at Bholaganj for reconciliation of figures following which, steps would be taken for

⁶ Vide Notification No. MG.31/2008/PT-II/59 dated 28.09.2010

⁷ Information for subsequent years was not available in respect of Land Custom Station at Bholaganj.

⁸ Exporters' details in **Annexure VIII**.

⁹ 2.58 lakh MT X ₹ 45/MT = ₹ 1.16 crore

recovery of royalty. A report on reconciliation and details of recovery of royalty has not been received (November 2015).

5.6.2 From the records of the DFO, Jaintia Hills (Territorial) Division, Jowai it was observed (July 2014) that three companies¹⁰ utilised 0.28 lakh MT of limestone from the non-mining lease areas between April 2013 and March 2014 and accordingly paid the admitted royalty to the DFO. However, cross-verification with the records of the Divisional Mining Officer (DMO), Jowai revealed that during the same period, the companies actually utilised 1.47 lakh MT of limestone from non-mining lease areas. Audit further observed that due to absence of proper co-ordination between Government departments or a system of periodic exchange of information, the companies concealed consumption of 1.19 lakh MT of limestone thereby resulting in evasion of royalty ₹ 0.75 crore¹¹.

The case was reported to the F&E Department, GOM in August 2014; their reply has not been received (November 2015).

5.7 Net Present Value not realised

Inaction of the Forest Department resulted in irregular diversion of 642.87 ha of forest lands by six cement companies and Net Present Value amounting to ₹ 42.24 crore not being realised.

[PCCF, Meghalaya; October 2014]

As per Section 1.1 of the Forest (Conservation) Act, 1980 (Rules & Guidelines) all proposals for diversion of forest land for non-forest purpose require prior approval of the Government of India (GOI). The Ministry of Environment & Forests (MoEF), Government of India directed (June 2003) all State Governments to recover Net Present Value¹² (NPV) of forest lands diverted for non-forest purposes from the user agencies for which approval was granted on or after 30 October 2002. The Compensatory Afforestation Fund Management & Plantation Authority (CAMPA)¹³ also directed (September 2007) all State Governments to stop all activities on forest land in respect of those projects for which NPV had not been realised. NPV¹⁴ is to be realised on the basis of classification of forests into six ecological classes as follows:

¹⁰ (i) Meghalaya Power Ltd. (ii) Adhunik Cements Ltd. and (iii) Hills Cement Co. Ltd.

¹¹ 1.19 lakh MT X ₹ 63/MT = ₹ 0.75 crore

¹² When forest land is diverted for non-forest use, the developer of such land has to pay for compensatory afforestation. In addition, the government charges the developer an amount to compensate for the forest's lost ecosystem services till the afforested area starts providing comparable benefits. The sum of such amounts realised is what is termed as the Net Present Value of the forest land.

¹³ An ad hoc body constituted by the Supreme Court of India.

¹⁴ Based on a Supreme Court judgement dated March 2008.

Eco-value	NPV (₹ in lakh per hectare)					
	Class I	Class II	Class III	Class IV	Class V	Class VI
Very dense forest	10.43	10.43	8.87	6.26	9.39	9.91
Dense forest	9.39	9.39	8.03	5.63	8.45	8.97
Open forest	7.30	7.30	6.26	4.38	6.57	6.99

Six¹⁵ cement plants in the State, with declared land holdings of 2122.83 hectares (ha), obtained State Government approval for operation of cement plants on various dates between March 2002 and October 2008 but failed to obtain prior approval of the GOI for diversion of forest land, although these projects were situated in forest land. Based on complaints received from various quarters, a High Level Committee¹⁶ (HLC) was constituted by the State Government during March/April 2011 to appraise the status of land holdings under the cement plants in the Jaintia Hills district of the State and suggest measures for initiating action against the defaulting cement plants for violations of the Forest Conservation Act. Based on various assessments between August 2011 and November 2011 the HLC opined that the cement plants had indeed been operating in forest lands. The HLC also *inter alia* recommended to the State Government that the cement plants should submit proposals for seeking approvals under the Forest Conservation Act. Accordingly, a joint inspection was undertaken by the Regional Office, MoEF and the State Forest Department in three phases between March 2012 and June 2012. The team inspected 1502.55 ha of land held by these cement companies and assessed¹⁷ 642.87 ha of land as forest land and 802.12 ha as non-forest land while the status of 57.56 ha of forest land could not be assessed.

However, despite the reports of the HLC and the joint inspection team which corroborated the fact that 642.87 ha of land as forest land had actually been diverted by the cement plants, no action was taken by the Forest Department and the Principal Chief Conservator of Forests (PCCF) against the cement plants either by way of stopping their activities on forest lands or by directing the cement plants to submit proposals for seeking clearances from the GOI.

The lackadaisical approach of the Forest Department towards an issue of utmost importance not only allowed undue commercial benefit of

¹⁵ (i) Amrit Cement Industries Limited (ii) Cement Manufacturing Company Limited (iii) Green Valley Industries Limited (iv) Goldstone Cement Limited (v) Hill Cements Company Limited (vi) Meghalaya Cement Limited

¹⁶ Members comprised of (i) The Regional Chief Conservator of Forests, MOEF, GOI (ii) The Principal Chief Conservator of Forests, Meghalaya (iii) The Director of Mineral Resources, Meghalaya (iv) The Conservator of Forests (Monitoring & Evaluation), Meghalaya, (v) The Director of Industries, Meghalaya (vi) Secretary, Jaintia Hills District Council.

¹⁷ Details in Annexure IX.

₹ 42.24 crore¹⁸ to the cement plants towards NPV not realised but also resulted in unauthorised operation of these cement plants without seeking necessary clearances in violations of the regulatory Acts. Moreover, the fact that the cement plants still continue to run their operations with impunity and in total disregard to the provisions of the Forest Conservation indicates connivance between the Forest Department and the cement plants and is a matter which needs serious investigation by the State Government as well as the MoEF.

On this being pointed out (November 2014), the PCCF, Meghalaya stated (December 2014) that the concerned DFO had been asked to report on the status of the applications in respect of the six cement companies. A report on the present status of the applications along with action taken to recover the NPV has not been received (November 2015).

5.8 Short realisation of licence fees

Licences were granted to 44 applicants for operation of saw/veneer mills on which ₹ 0.17 crore was realisable against which, the Department realised ₹ 0.06 crore resulting in short realisation of licence fees amounting to ₹ 0.11 crore.

DFO, Territorial Shillong; October 2014]

As per Rule 6 read with Rule 7 of the Meghalaya Forest-Based Industries (Establishment and Regulation) Rules, 1998 the Government may grant licence for operation of saw/veneer¹⁹/plywood mill in the State which shall remain valid for the calendar year ending 31st day of December following the date of issue or renewal of licence. Further as per Rule 10 of the Rules *ibid*, for grant/renewal of licence for operation of saw/veneer/plywood mill, the fees to be paid is as follows:

Sl. No.	Particulars	Grant of Licence fees (₹)		Renewal of licence fees (₹)	
		Tribal applicant	Non-tribal applicant	Tribal applicant	Non-tribal applicant
(a)	Saw Mill	10000	20000	5000	10000
(b)	Veneer Mill	50000	100000	10000	20000
(c)	Plywood Mill	100000	200000	25000	50000

On scrutiny of records pertaining to granting /renewal of licence to the wood based industries set up/to be set up in the industrial estates at Umiam and Byrnihat in Ribhoi District and Nongstoin in West Khasi Hills, it was observed that 44 applicants were granted fresh/renewed licences on various

¹⁸ Forest in Meghalaya fall under Class I and Class V category. Hence, calculated at the minimum of ₹ 6.57 lakh per hectare (for Class V category).

¹⁹ Veneer refers to thin slices of wood, usually thinner than 3 mm which are glued onto core panels (typically, wood, particle board etc.) to produce flat panels such as doors, and panels for cabinets and parts of furniture.

dates between November 2013 and April 2014 by the PCCF for operation of saw/veneer mill on which licence fees amounting to ₹ 0.17 crore was realisable against which, the PCCF realised ₹ 0.06 crore and remitted the amount to the DFO. No action was, however, initiated by the DFO to realise the balance amount from the licencees thereby resulting in short realisation of licence fees of ₹ 0.11 crore²⁰.

The case was reported to the F&E Department, Government of Meghalaya in November 2014; their reply has not been received (November 2015).

²⁰ Details in Annexure-X.

Part-B: Expenditure

A few illustrative cases of excess payment/financial irregularities having financial impact of ₹ 10.85 crore are discussed in the paragraphs 5.9 and 5.10.

5.9 Financial irregularities resulting in doubtful payments

Unauthorised release of funds indicating arbitrary decisions of the then CEO of the Meghalaya State Medicinal Plants Board resulted in fraudulent financial transactions of ₹ 2.85 crore in the implementation of several plantation schemes.

[Meghalaya State Medicinal Plants Board; March-April 2015]

The Meghalaya State Medicinal Plants Board (MSMPB)²¹ has been receiving grants-in-aid from National Medicinal Plant Board (NMPB), Ministry of Health and Family Welfare, Department of Ayush, Government of India (GOI) for Implementation of Centrally Sponsored Schemes viz. National Mission on Medicinal Plants, Nationwide Amla Campaign *etc.* The Schemes were to be implemented during the 11th Five year plan with 100 *per cent* contribution from the GOI. The details of the funds received during the period 2009-10 to 2011-12 are detailed below:

(₹ in lakh)				
Year wise Action Plans	Amount proposed	Amount sanctioned	Date of approval	Amount released
2009-10	368.55	368.55	June 2009	318.60
2010-11	397.16	397.16	April 2010	68.50
2010-11 (Amla Campaign)	98.45	40.00	June 2010	40.00
2011-12 (1 st Action Plan)	282.61	108.19		91.64
(2 nd Action Plan)	84.00			
Total				518.74

For implementation of the above Schemes, MSMPB engaged Vista Agritech Private Limited (VAPL), an agency located in Guwahati, as Consultant by signing an agreement with them on 3 August 2010 for a period of five years *i.e.*, 2009-10 to 2013-14. Accordingly, VAPL was to provide consultancy services and other ancillary activities needed for the implementation of the various projects such as:

- Site mapping;
- Preparation of Project Reports, Annual Action Plans *etc.*;
- Mobilisation of farmers and entrepreneurs;

²¹ The Governing Body of the Board is appointed by the Government and has the following members:-(i) Chief Secretary, GOM (ii) Principal Secretary, GOM, Finance Department (iii) Principal Secretary, GOM, Planning Department (iv) Principal Secretary, GOM, Department of Forest & Environment (v) Principal Secretary, GOM, Health & Family Welfare Department (vi) Principal Secretary, GOM, Horticulture/Agriculture Department (vii) Principal, Chief Conservator of Forests, Meghalaya (viii) Chief Conservator of Forests Territorial, Meghalaya (ix) Conservator of Forests, *i/c* Medicinal Plants, *O/o* the Principal Chief Conservator of Forests, Meghalaya (x) Director, Health & Family Welfare (Research), Meghalaya (xi) Director, Horticulture, Meghalaya (xii) Director, ICAR, NER, Barapani (xiii) CEO, National Medicinal Plants Board, New Delhi (xiv) Vice-Chancellor, NEHU or his Nominee (xv) Regional Director, Botanical Survey of India, Shillong.

- Supply of Quality Planting Materials;
- Developing nurseries and plantations;
- Providing agro and post harvesting techniques;
- Setting up of processing houses, storage godowns *etc.*; and
- Market intervention survey and buy back arrangement for quality produce.

Consultancy fees up to maximum of 2 *per cent* of the total project sanctioned was payable. VAPL was to provide bills and receipts of expenditure and payments. For implementation of various scope of work as stated above, MSMPB released funds as detailed below:

(₹ in lakh)

No.	Action Plan & Amla Campaign	Fund received	Fund disbursed to VAPL				Total
			Consultancy fees	Seeds, planting materials for nurseries & Cultivation	Development of nursery	Capacity Building	
1.	2009-10	318.60	7.00	148.00	48.00	12.00	215.0
2.	2010-11	68.50	1.30	11.18	33.50	0	45.98
3.	2010-11 (Amla) ²²	40.00	0	23.40	0	0	23.40
4.	2011-12	91.64	0.95	0	0	0	0.95
TOTAL		518.74	9.25	182.58	81.5	12	285.33

Audit of records relating to the above transactions revealed the following irregularities and deficiencies:

5.9.1 Arbitrary appointment of consultant

- The consultant (VAPL) was appointed (August 2010) on a *pick and choose* basis by the Chief Executive Officer (CEO)²³ of the SMPB without observing any tender procedures of the Government, such as invitation of tender & proper evaluation of the bids after consideration of qualification, past experience, competitiveness of the Consultancy fees and related issues, *etc.* Further, the appointment of consultant was not even approved by the Governing Body of the Board. It was also observed that the then CEO himself had executed an Agreement with VAPL in August 2010 by falsely mentioning that a Memorandum of Understanding (MoU) was executed with VAPL in May 2009 for a period of 5 years. However, no such MoU with VAPL was executed in May 2009.
- The agreement was silent about the procedures to be followed before releasing the project payments to the consultant and no payment schedules were prescribed in the agreement. In the absence of this essential provision of the agreement, the genuineness of the project payments released by the CEO to the consultant amounting to

²² This indicates the Action Plan for Amla Campaign which highlights the coverage areas, funds requirement, awareness programme, training & Capacity building *etc.*

²³ Shri T.T.C. Marak was the CEO from April 2009 to April 2011.

₹ 2.85 crore could not be vouchsafed in audit as could be observed from the following irregularities in disbursement of payments.

The Government accepted (September 2015) the audit observation.

5.9.2 Irregularities in disbursement of payment to the consultant

The CEO did not adhere to the prescribed Rules & Regulations of the Board in regard to disbursement of payments by issue of cheques as detailed below:

Rule 15(k) of the Rules and Regulations of the Meghalaya State Medicinal Plants Board as notified by the Government of Meghalaya, Forest & Environment Department on 24 August 2006 stipulates that the CEO shall operate bank account(s) for and on behalf of the society²⁴ subject to the condition that cheques for amounts above ₹ 1 lakh should be jointly signed by the CEO and the Chairman of the Board. However, in total disregard to the aforesaid Regulation of the Board, the CEO released payment of ₹ 2.36 crore to VAPL by issuing 23 cheques valuing above ₹ 1 lakh without obtaining the signature of the Chairman of the Board. The matter regarding issue of cheques above ₹ 1 lakh by the CEO without obtaining signature of the Chairman was also discussed in the Review meeting of the MSMPB held on 9 July 2010 and it was decided that the CEO should submit a comprehensive report in this regard in the next meeting of the Governing Body of the Board for consideration and further direction. However, no such report was submitted by the CEO in the subsequent meeting of the Governing Body. On this being pointed out by the Principal Chief Conservator of Forest (one of the members of the Governing Body) on 22 July 2010, the CEO stated that he had not issued any cheque beyond ₹ 1 lakh since 9 July 2010. Audit, however, noticed that the CEO had subsequently (March 2011 to April 2011) withdrawn ₹ 0.22 crore through 9 cheques valuing above ₹ 1 lakh.

➤ The other malafide transactions made by the CEO are detailed below:

No.	Nature of transaction	Amount involved
1.	Splitting the cheque amount within ₹ 1.00 lakh to avoid the requirement of joint signature of the Chairman even though the payments released in single day was ranging from ₹ 2 lakh to ₹ 10 lakh	₹ 0.46 crore
2.	Irregular Withdrawal of Government money through self drawal cheques (28 Nos)	₹ 1.39 crore
3.	In a single day (30 October 2009), the then CEO had withdrawn money from Meghalaya Cooperative Apex Bank (MCAB) through self drawal cheque and shown as payment made to VAPL although the account maintained at MCAB was a joint account.	₹ 0.93 crore

It was also observed that updated receipts of the cheques amounting to ₹ 2.03 crore only were available which indicated towards the possibility of these receipts being issued after the irregularity surfaced. Moreover, there was

²⁴ The Meghalaya State Medicinal Plants Board is registered under Meghalaya Societies Registration Act, 12 of 1983.

system defect/failure at Bank level since it did not ensure that the cheques amounting ₹ 1,00,000 and above should have joint signature of CEO & the Chairman which indicated collusion at the Bank level. Furthermore since self-cheques cannot be used for making payments, misappropriation cannot be ruled out.

The Government stated that an FIR had been lodged in this regard. However no comments were given either on the reasons responsible for the irregularity or of Departmental action taken.

5.9.3 Doubtful expenditure

VAPL did not submit any bills and supporting documents regarding purchase of seeds, planting materials, development of nurseries and organizing workshops, training etc. The Governing Body of the Board in its meeting dated 4 August 2014 had expressed serious concerns regarding not submitting bills and other supporting documents by VAPL and directed (24 September 2014) VAPL to submit the authenticated bills and other documents. While VAPL had sent some vouchers amounting to ₹ 1.76 crore without any supporting original bills for the purchases made, no such vouchers had been submitted for the balance amount of ₹ 1.09 crore. Missing original bills/invoices indicated doubtful expenditure.

The Department while admitting the audit observation stated that some of the documents (vouchers /bills/ despatch registers) as submitted by M/s Vista Agritech were also made available to audit.

The fact remains that the documents submitted to Audit were not supported by original bills and invoices, which are very important to ensure the genuineness of expenditure.

5.9.4 Performance of VAPL neither monitored nor evaluated

Even though an amount of ₹ 2.85 crore was released to the consultant for implementation of various schemes/programmes, the Board never evaluated the performance of the consultant to ensure the actual development of nurseries, cultivations and other project related activities executed by the consultant. Moreover, the Board also did not get any physical verification conducted to establish the actual existence of the plantations and also to substantiate the expenditure incurred by the consultant.

The Government did not offer any comment on this issue (November 2015).

5.9.5 Non-existence of the Plantations noticed during joint Physical Verification of the plantations in East Khasi Hills District

With a view to verifying the physical existence of these plantations, the audit team along with officials of the MSMPB conducted a joint physical

verification on the following plantations in East Khasi Hills District on 30 March 2015 & 08 April 2015.

Date	Name/Address of the Farmers.	Amount received (₹)
30.03.2015	1. Laitdiengwah Farmers, Laitdiengwah Village, Smit.	10,00,000
	2. Mr Pynskhemlang Kharkongor, Umphyrnai Village.	2,00,000
	3. Smti Phiora L Nongbri, Umpat Village, Smit	3,43,750
	4. Mr. Chandra L Nongbri, Wah Iing Syiem, Smit	3,43,750
08.04.2015	5. Kardingland Shangdiar, Malai Sohkria Village, Balat.	3,43,750
Total		22,31,250

During physical verification, audit noticed that none of the above mentioned plantations were found physically existing.

- The audit team visited Laitdiengwah Farmers Group Development Co-operative Society (Sl. No.1) and met the President of the Society, Mr. Edar Lyngdoh Nongbri who stated that he had received ₹ 5 lakh as cash from the consultant and tried to create model nursery but no plants survived. He also stated that he did not receive the seeds and other inputs amounting ₹ 5 lakh as shown in the voucher and the signature shown in the receipt voucher was not his. During the inspection, audit also observed that there were no signs of any plantation having been developed. Thus, the voucher shown for payments of seeds worth ₹ 5 lakh appeared to be fraudulent. Moreover, the fact that there was no proof of any plantation indicated that the plantation itself was doubtful.
- The audit team also visited Balat (Sl. No. 5) on 08 April 2015 along with the assistant/helper of the plantation. However, the plantation did not exist anymore as the seeds supplied by VAPL did not germinate. The owner of the plantation stated that he received ₹ 1.72 lakh and 2 bags of seeds weighing 50 kgs each and not 4 bags of seeds weighing 288 kgs as shown in the voucher. It would therefore be observed that the purpose of creation of nursery for plantation of Medicinal Plants was defeated.

In reply, the Government stated that the plantations in East Khasi Hills was raised during the year 2009-10 and since then 5 years had elapsed and the medicinal plants taken for cultivation were mostly annual in nature and may not be available after one year. Moreover, the Department stated that in view of the observations pointed out by audit, the Board as per the direction of the Governing Body filed an FIR with the Superintendent of Police, East Khasi Hills, Shillong and an investigation into the matter was going on.

In view of the reply that the medicinal plants may not be available after a gap of 5 years, it was doubtful whether such plantations were really developed in

the context of doubtful and fraudulent transactions of the consultant during the contract period from 2009-10 to 2011-12. This fact is supported by the Board's action of filing an FIR against the then CEO of the Board.

Conclusion:

- The consultant (VAPL) was appointed on a pick and choose basis by the then Chief Executive Officer (CEO) of the Medicinal Board without observing any tender procedures of the Government.
- The then CEO did not adhere to the prescribed rules and regulations of the Board and thus irregularly disbursed ₹ 2.85 crore to the consultant. This proves the dubious actions of the then CEO in dealing with the fraudulent financial transactions of the consultant leaving a needle of suspicion. Irregular withdrawal of Government money worth ₹ 2.36 crore through self drawal of cheques also raises serious doubts about the intention of the then CEO. Collusion of the bank, in allowing withdrawal of money without obtaining joint signature of the Chairman, also cannot be ruled out.
- Non-submission of original bills/inadequate documentation for the material purchased by VAPL raised serious doubt in regard to actual purchases made for development of plantations & nurseries
- The Board failed to evaluate/monitor the performance of the consultant to ensure the actual development of nurseries, cultivations and other project related activities executed by the consultant. In this regard, the Board also failed to ensure compliance of its directives issued in 2012, 2013 & 2014.
- Physical verifications conducted by Audit indicated fraudulent financial transactions relating to development of plantations as no plantations existed on sites, where these had been shown by VAPL to have been planted.

Thus, it would be observed that the delivery of services by the consultant was either false or doubtful or of poor quality and though an FIR had been lodged against CEO, a similar case of action was necessary against VAPL and this action was to be expedited.

Recommendations:

- *The then CEO and the consultant should be held accountable by initiating disciplinary /criminal proceedings for committing fraudulent financial transactions & misappropriation of government money.*
- *The unspent as well as unaccounted money should be recovered from the consultant and the CEO apart from initiating criminal proceedings.*

5.10 Fictitious land acquisition and consequent fraudulent payment

Land acquisition proceedings of the Mawpalai Afforestation Area (1.78 sq.km) were flawed and consequently, an amount of ₹ 8 crore (80 per cent of compensation) was fraudulently released to the village representative for a fictitious land acquisition when actually the land was and continues to be in the possession of the Soil & Water Conservation Department, Government of Meghalaya.

[PCCF, Meghalaya; August 2012]

With a view to providing environmental amelioration to the degraded forest areas, the Forest and Environment (F&E) Department, Government of Meghalaya (GoM) proposed (July 2009) to acquire Mawpalai Afforestation area (1.78 sq.km) lying adjacent to NH-40 between Umsaw Khwan and Lad Sumer villages, Ri-Bhoi district at an estimated cost of ₹ 15.09 crore and sought approval of the Planning/Finance Department. The Planning Department, GoM, in the interest of ecology & environment and to convert the acquired land into State Reserved Forest agreed to the proposal and allocated ₹ 10 crore during 2009-10. It further suggested the following procedures to be applied:

- The acquisition of afforested land should be done through negotiation with the Village Community/Village *Dorbar*²⁵ on priority basis.
- In the negotiated settlement, the 30 per cent solatium and 12 per cent interest should not be made applicable and should not be included in the estimate.
- The Forest & Environment Department should enter into a legally binding agreement with the community/village Durbar having legal identity or socially /traditionally accepted identity to the effect that the properly defined afforested land shall be acquired by the Government and the signed agreement be duly registered.

Accordingly, the GoM constituted (July 2009) an 'Inter-Departmental Negotiating Committee'²⁶ (Negotiating Committee) to negotiate the cost of land excluding the 30 per cent solatium and 12 per cent interest. After taking into account the estimate of ₹ 11.63 crore²⁷ as submitted (January 2010) by the Deputy Commissioner (DC), Ri Bhoi District and the offer (February 2010) of ₹ 10 crore of the Umsaw Khwan Village Durbar for transfer of ownership of the Mawpalai Afforestation area, the Negotiating Committee agreed (February 2010) to the compensation amount of ₹ 10 crore which was

²⁵ Traditional village authority functioning under the Autonomous District Council established under Sixth Schedule of the Constitution

²⁶ Commissioner & Secretary, F&E Department, GOM as Chairperson along with six other Officials.

²⁷ Includes value of land - ₹ 1.39 crore plus value of trees - ₹ 5.76 crore, 30 % solatium at ₹ 2.14 crore, 12% interest at ₹ 1.29 crore and other charges ₹ 1.06 crore.

endorsed (March 2010) by the Planning and Finance Departments, GoM. Based on this, the F&E Department sanctioned (March 2010) ₹ 10 crore and placed the funds (October 2010) at the disposal of Deputy Commissioner (DC), Ri Bhoi District for further necessary action. Subsequently, the Revenue Department issued (March 2011) notification under Section 4²⁸ of the Land Acquisition Act (LA Act), 1894 and also invoked (April 2011) the urgency clause 17²⁹ of the LA Act for speedy acquisition proceedings. Accordingly, an amount of ₹ 8 crore was released (June 2011) in favour of Shri S.W. Rymbai³⁰ who accepted the payment as land owner and a 'Certificate of Taking Over Possession of the Land' was signed after executing an 'Indemnity Bond' in favour of GoM.

However, the land was not handed over by the Village *Dorbar* to the F&E Department till date. In the meantime, the F&E Department, on an enquiry (May 2012) by the DC, Ri Bhoi District had ascertained (October 2012) that the Mawpalai plantation had been created and maintained by the Soil and Water Conservation (S&WC) Department, GoM, in different years from 1959-60 to 1972-73 and the land was under their possession since 1953. In view of this, the LA proceedings were considered flawed and the DC, Ri Bhoi District, was asked to recover ₹ 8 crore with interest and annul the LA proceedings. In this regard, a Writ Petition (WP) was filed (2012) against the State Government by the Village *Dorbar* in the High Court of Meghalaya. The Government also filed a case (November 2012) with the Criminal Investigation Department (CID) Police Station, Shillong for investigation in connection with fraudulent payment of Government money and the investigation was still in progress (July 2015). The High Court of Meghalaya, while disposing (Feb 2014) the WP observed that since public money was involved, the Government must get a chance to redress the grievances and therefore directed the Government to file a recovery suit before the appropriate Court. Accordingly, a Money Suit for recovery of ₹ 8 crore was filed (June 2014) in the Court of Assistant District & Sessions Judge at Nongpoh.

²⁸ Whenever it appears to the Government, the land in any locality is needed for any public purpose, a notification to that effect shall be published in the Official Gazette and in two daily newspapers circulating in that locality of which at least one shall be in the regional language, and the Collector shall cause public notice of the substance of such notification to be given at convenient places in the said locality.

²⁹ In cases of urgency whenever the Government so directs the Collector, though no such award has been made, may, on the expiration of fifteen days from the publication of such notice mentioned in Section 9, sub-section 1, take possession of any land needed for a public purpose. Such land shall thereupon vest absolutely in the Government, free from all encumbrances.

³⁰ The Divisional Forest Officer, Wildlife Division, Khasi Hills, stated (August 2009) that the then Parliamentary Secretary, Shri S.W. Rymbai had informed him that he was authorised by the Umsaw Khwan village *Durbar* to discuss the acquisition of Mawpalai Forest.

Scrutiny of relevant records in audit revealed the following irregularities and fraudulent transactions.

5.10.1 Fictitious land Acquisition & fraudulent payment of Government Money

As maintained by the villagers of Umsaw Khwan, the afforestation at Mawpalai was taken up by the Government of Assam under a scheme introduced in early fifties known as Jhum Control Scheme. Consequent to creation of the State of Meghalaya, the Mawpalai Afforestation Plantation was passed over to the Soil & Conservation Department (S&WC), GoM. However, the villagers, on the basis of *patta*³¹ issued by the *Syiem*³² of Raid Mawbuh and the *Syiem* of Myllichem had requested (1994) for transfer of the Mawpalai Afforestation area to them. The request of the villagers was examined by a team of State Government officials³³ and it was reported that there was no evidence to support the claim of the villagers. On this basis, the State Cabinet had also decided (August 1995) that Forest land should not be parted with and the claim of the villagers should be rejected and Government may continue to exert control over it.

However, based on the fresh claim again made by the villagers in June 2009, the F&E Department without relying upon the earlier decision of the GOM that the forest land should not be parted with as it was under Government control, had acquired the land it already possessed (July 2009) at a negotiated cost of ₹ 10 crore (estimated cost: ₹ 15.09 crore). It is therefore evident that the Government Notification dated 02-03-2001 issued under Section 4 of the Land Acquisition Act, 1994 was flawed and 80 per cent compensation amounting to ₹ 8 crore was fraudulently released to one of the village representatives.

The following further irregularities were also observed by Audit:

- The compensation amount of ₹ 8 crore was unauthorisedly paid to Shri. S.W. Rymbai, who claimed to be the self-styled rightful representative of the Village *Dorbar* and acted as the landowner without any valid and legal authorisation by the village *Dorbar* to that effect. Hence, the Government and the Deputy Commissioner, Ri-Bhoi District released Government money to a third party without due diligence and verification of facts and antecedents of the parties involved in the transaction.
- Although the *patta* issued by the *Syiem* of Myllichem in 1994 clearly indicated that there should not be any sale/registration of this village forest to other authorities and the State Cabinet had rejected the request of the villagers

³¹ Patta is a documentary evidence of purchase of land by the buyer.

³² Syiem is the head of the Hima (Kingdom).

³³ Chief Secretary, Principal Secretary of Soil Conservation Department, Commissioner and Secretary of Revenue Department and Secretary of Law Department.

for transfer of forest land, yet the F&E Department fraudulently accepted the ownership claim of the villagers.

➤ Though the Negotiating Committee had decided (December 2009) to examine the details of records of Mawpalai Afforestation area available with S&WC Department, it failed to verify the legal ownership and title of the aforesaid forest land and became a party to fraudulent land acquisition at a negotiated cost of ₹ 10 crore. This was later admitted (October 2012) by the then Principal Secretary, F&E Department, GoM that the said plantations developed by the Government Department over an area of 178 ha were 40-52 years old and the entire land containing these plantations was still in the possession of S&WC Department. This was further substantiated by the fact that basing on this premise, the Government filed a case (November 2012) with the CID, Shillong for investigation in connection with fraudulent payment of Government money and subsequently a Money Suit was also filed (June 2014) in the Court of Law.

5.10.2 Payment of irregular compensation towards trees/fruits, solatium & interest

Notwithstanding the above fictitious land acquisition, the Negotiating Committee irregularly agreed (February 2010) to a compensation of ₹ 3.43 crore towards 30 *per cent* solatium and 12 *per cent* interest although the same was not admitted as per the conditions and procedure prescribed by the Planning Department. Additionally, the compensation erroneously included as payments towards trees/fruits was not to be allowed as the trees standing on the aforesaid land were planted and nurtured/raised by the S&WC Department, GOM and this fact was also intimated to the DC, Ri Bhoi by the PCCF on 02 November 2010. Despite this fact, the DC, Ri Bhoi irregularly prepared the estimate by including compensation for plantations/trees valued at ₹ 5.76 crore and accordingly, the Negotiating Committee approved the estimate prepared by DC, Ri-Bhoi.

Thus, on the basis of 80 *per cent* compensation already released, the irregular amount paid worked out to ₹ 6.32 crore³⁴ towards 30 *per cent* solatium, 12 *per cent* interest and plantations /trees.

➤ Even though the Planning Commission, New Delhi did not support (December 2009) the scheme as it lacked scientific and legal backing for procurement and management of forests, the funds were irregularly re-appropriated by the Planning Department, GOM from the other Heads of the State Plan funds as temporary transfer during the year 2009-10.

³⁴ 80 % of 86 % of (₹ 3.43+ ₹ 5.76 crore). 86 % is the ratio of estimate of ₹ 11.63 crore to ₹ 10 crore amount agreed.

➤ After the sanction (March 2010) of the scheme, funds (₹ 10 crore) were transferred (September 2010) to DC, Ri Bhoi District without calling for any demand letter specifying³⁵ the exact requirement to initiate land acquisition proceedings. However, based on the directive (August 2010) of the F&E Department, funds were transferred (September 2010) to the DC, Ri Bhoi who was asked to submit the necessary documents directly to the F&E Department.

➤ Though the payment for acquiring land was released in June 2011 and a 'Certificate of Taking over Possession of the Land' was signed with the representative of the Village *Dorbar viz.* Shri S.W. Rymbai by the DC, Ri Bhoi, the physical possession of land was never taken over by the DC. Despite repeated enquiries (December 2011 and January 2012), the DC failed to intimate the status of LA proceedings to the F&E Department. It was however, later (October 2012) ascertained that the entire land containing these plantations was still in the possession of Soil Conservation Department.

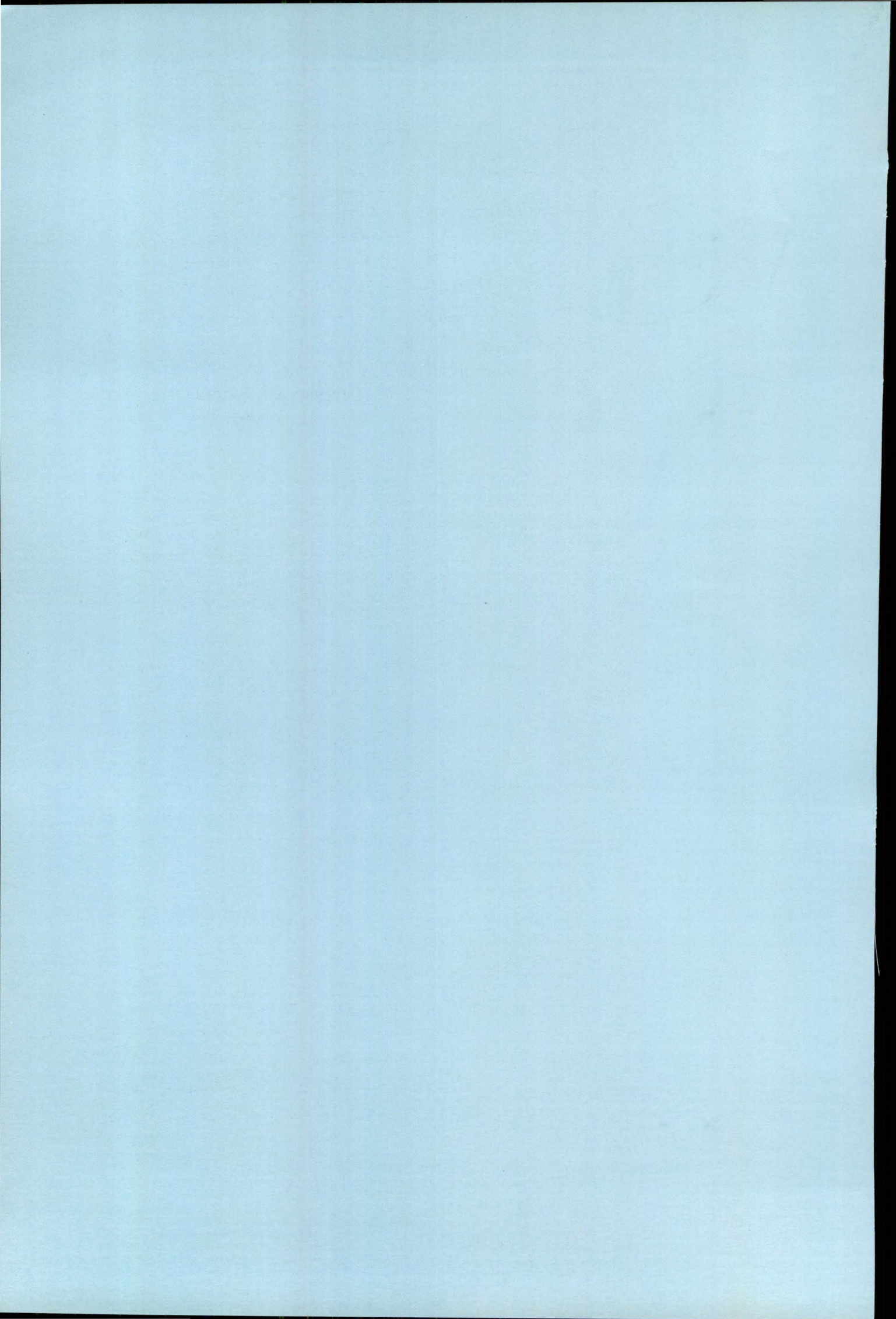
In reply to an audit observation in this regard, the then PCCF stated (May 2013) that *"To surmise it as a fictitious and fraudulent matter is a misplaced judgement, for facts have all along established that the Government had made the purchase of the land belonging to the people for the purpose of maintaining ecological stability of the area and in view of the critically eco-sensitive nature of the land. Payment in respect of the plantation that was created and maintained was in tune with the principle of Social Forestry plantations being followed by the Department."*

The reply of PCCF (May 2013) is silent about the facts that the State Cabinet's decision in the year 1995 and the *patta* issued by the *Syiem* of Myllem both prohibit the transfer of land and also that the land was acquired by the Government in the Soil & Water Conservation and maintained by it subsequently. It was not possible that the F&E Department was not aware about the hard irrefutable evidence and therefore its action of initiating the transfer and payment of ₹ 8 crore in pursuance thereof amounted to criminal negligence. Though we have not received the response of the Government, yet its decision in November 2012 to register a case with the CID to investigate the offences committed against the Government which resulted in a wrongful loss of ₹ 8 crore bears out our conclusion. Thus, the then PCCF had wilfully hidden the above information from Audit about the CID investigation and tried to mislead the Audit investigation. Since it was the responsibility of the Revenue Department, being the authority on land matters, to verify the land details before carrying out the LA proceedings, the negligence of the Revenue Department in this matter also needs to be investigated.

³⁵ With details on area of land identified after survey by the Revenue Department, particulars of owners of land with the area of their individual holdings, valuation of land, etc.



CHAPTER-VI
MINING RECEIPTS



CHAPTER-VI: MINING RECEIPTS

6.1 Tax Administration

The Principal Secretary to the Government of Meghalaya, Mining & Geology Department is in overall charge of the Department at the Government level. The Director of Mineral Resources (DMR) is the administrative head of the Department. At the district level, the Divisional Mining Officers (DMOs) have been entrusted with the collection of royalty and cess on minerals and issuing of permits. The collection of tax is governed by the Mines & Minerals (Development & Regulation) Act, 1957, the Mineral Concession Rules, 1960 and the Meghalaya Minerals Cess Act, 1988.

6.2 Internal audit

The Mining & Geology Department has no separate Internal Audit Wing (IAW). Despite the same being pointed out in the Performance Audits carried out from time to time, no action has been taken by the Department to create an IAW to monitor the working of the Department. In the absence of a separate IAW, the Department solely relies upon the audit carried out by the Accountant General.

Recommendation: *The Department may urgently look into the possibility of creating an Internal Audit Wing to effectively monitor the functioning of the Department.*

6.3 Results of Audit

Test check of the records of three units relating to Mining & Geology Department during 2014-15 revealed under-assessment of tax and other irregularities involving ₹ 302.62 crore in 14 cases which fall under the following categories:

Table 6.1

			(₹ in crore)
Sl. No.	Category	Number of cases	Amount
1.	Non/Short realisation of revenue	12	286.16
2.	Other irregularities	02	16.46
Total		14	302.62

During the course of the year, the Department accepted under-assessments and other deficiencies amounting to ₹ 159.61 crore in six cases. No recovery was intimated in any of the cases during the year 2014-15.

A few illustrative cases having financial impact of ₹ 63.47 crore in terms of short/non-realisation of revenue are discussed in the paragraphs 6.4 to 6.7.

6.4 Failure to realise royalty on coal

Inaction of the Department resulted in royalty not realised amounting to ₹ 62.14 crore on 9.21 lakh MT of coal procured by eight cement manufacturing units.

[DMO, Jowai; March 2015]

Section 9 (2) of the Mines and Minerals (Development and Regulation) Act, 1957 lays down that every licensee or permit holder or lessee shall pay the prescribed royalty in respect of mineral removed or consumed by him. In Meghalaya, royalty on coal is ₹ 675 per MT¹. Failure to pay royalty is penalised at 25 per cent of the rate of royalty².

Eight³ cement manufacturing units under the jurisdiction of the Divisional Mining Officer (DMO), Jowai procured 9.21 lakh MT of coal within the State between April 2013 and May 2014 on which royalty of ₹ 62.14 crore was payable. The cement units failed to pay any royalty to the Government in line with payments made by them in the earlier years. The Department also failed to ensure payment of royalty on the quantity of coal procured, thereby resulting in royalty not being realised to that extent. Besides, for failure to pay royalty, penalty amounting to ₹ 15.54 crore was also leviable. The Government was thus deprived of revenue to the tune of ₹ 77.68 crore.

The case was reported to the Mining & Geology (M&G) Department, Government of Meghalaya in April 2015; their reply has not been received (November 2015).

6.5 Short realisation of revenue due to under reporting of excess load by a checkgate

There was a short-realisation of royalty amounting to ₹ 0.42 crore by a checkgate due to under reporting of 7142 MT of excess load of coal on which penalty of ₹ 0.11 crore was also leviable.

[DMR, Meghalaya; December 2014]

In Meghalaya, coal can be transported outside the State only on the strength of Mineral Transport Challans (MTC) which are issued by the Director of Mineral Resources (DMR), Meghalaya on advance payment of royalty at ₹ 675 per MT⁴. Each MTC authorises movement of 9 MT of coal per truck. For carriage of coal in excess of 9 MT, the DMR check gates located throughout the State levy royalty on the quantity of excess

¹ Vide a notification dated 22 June 2012.

² In the same notification dated 22 June 2012 vide which revised the rate of royalty on coal.

³ (1) M/s Cement Manufacturing Co. Ltd. (2) M/s Meghalaya Power Ltd. (3) M/s Star Cement Meghalaya Ltd. (4) M/s Meghalaya Cement Ltd. (5) M/s Adhunik Cement Ltd. (6) M/s Hills Cement Co. Ltd. (7) M/s Green Valley Industries Ltd. (8) M/s JUD Cements Ltd.

⁴ With effect from 22 June 2012.

load transported in addition to penalty at 25 *per cent* of the royalty. For detection of excess load, the Government of Meghalaya has established weighbridges⁵ at all checkgates. Based on the weighment slips issued by the weighbridges, the check gates realise additional royalty.

In Meghalaya, the weighbridges are under the control of the Transport Department and are required to submit monthly information to the Commissioner of Transport (CT), Meghalaya. From examination of the monthly returns in CT, Meghalaya it was seen that between April 2013 and March 2014, 33,885 trucks carrying 60,067 MT of coal in excess of the permissible limit passed through the Check gate/Weighbridge. Cross-check of this information with the records of the DMR revealed that during the same period, the DMR checkgate at Umling recorded 52,925 MT of excess load of coal and accordingly realised royalty and penalty on the excess load which was 7,142 MT lesser than the actual excess load. As the recording of excess load at the DMR checkgate was based on the weighment slips issued by the Weighbridge, the under reporting of excess load of coal as compared to the monthly returns of the CT was inexplicable and evasion of revenue cannot be ruled out. This resulted in short realisation of revenue of ₹ 0.42 crore on which penalty amounting to ₹ 0.11 crore was also leviable. The under reporting of excess load could have been detected through a suitable system of reconciliation of data between the Government departments which was also not done.

The case was reported to the Mining & Geology (M&G) Department, Government of Meghalaya in February 2015; their reply has not been received (November 2015).

6.6 Short-realisation of cess on limestone

Under reporting of 1.77 lakh MT of limestone exported to Bangladesh resulted in short-realisation of cess of ₹ 0.35 crore.

[DMR, Meghalaya; December 2014]

As per Section 4(1)(c) of the Meghalaya Minerals Cess Act, 1988 cess on limestone is leviable at ₹ 20 per MT⁶.

It was observed (February 2015) from the records of the DMR pertaining to export of minerals to Bangladesh that between January 2013 and December 2013, the Dawki Land Custom Station (LCS) recorded export of 6 lakh MT⁷ of limestone against which, cess amounting to ₹ 1.20 crore was realisable. Cross-check with the monthly returns furnished by the DMR check gate at Dawki revealed that during the same period, the DMR

⁵ All weighbridges are under the control of the Transport Department.

⁶ With effect from 6 January 2009.

⁷ Number of trucks are not available on records.

checkgate recorded export of 4.23 lakh MT of limestone to Bangladesh and accordingly realised ₹ 0.85 crore as cess.

Though the DMR checkgate and the LCS are situated at the same location, there was no system in place to cross verify and reconcile the figures/data of DMR with the records of LCS. Consequently, there was under reporting of export of 1.77 lakh MT limestone to Bangladesh, which resulted in short-realisation of cess amounting to ₹ 0.35 crore.

The case was reported to the M&G Department, Government of Meghalaya in February 2015; their reply has not been received (November 2015).

6.7 Interest not levied

Interest amounting to ₹ 0.45 crore was not realised from two lessees for belated payment of dues.

[DMO, Jowai; March 2015]

Rule 64 A of Mineral Concession Rules, 1960 provides that if the dues payable by a lessee are not paid within the time specified, simple interest at the rate of 24 *per cent* per annum may be charged on the amount remaining unpaid from the sixtieth day of the expiry of the date fixed for payment of such dues. For the purpose of calculation of interest, the M&G Department, GOM has fixed the due dates as follows:

Half yearly ending	Due date
30 June	31 July
31 December	31 January

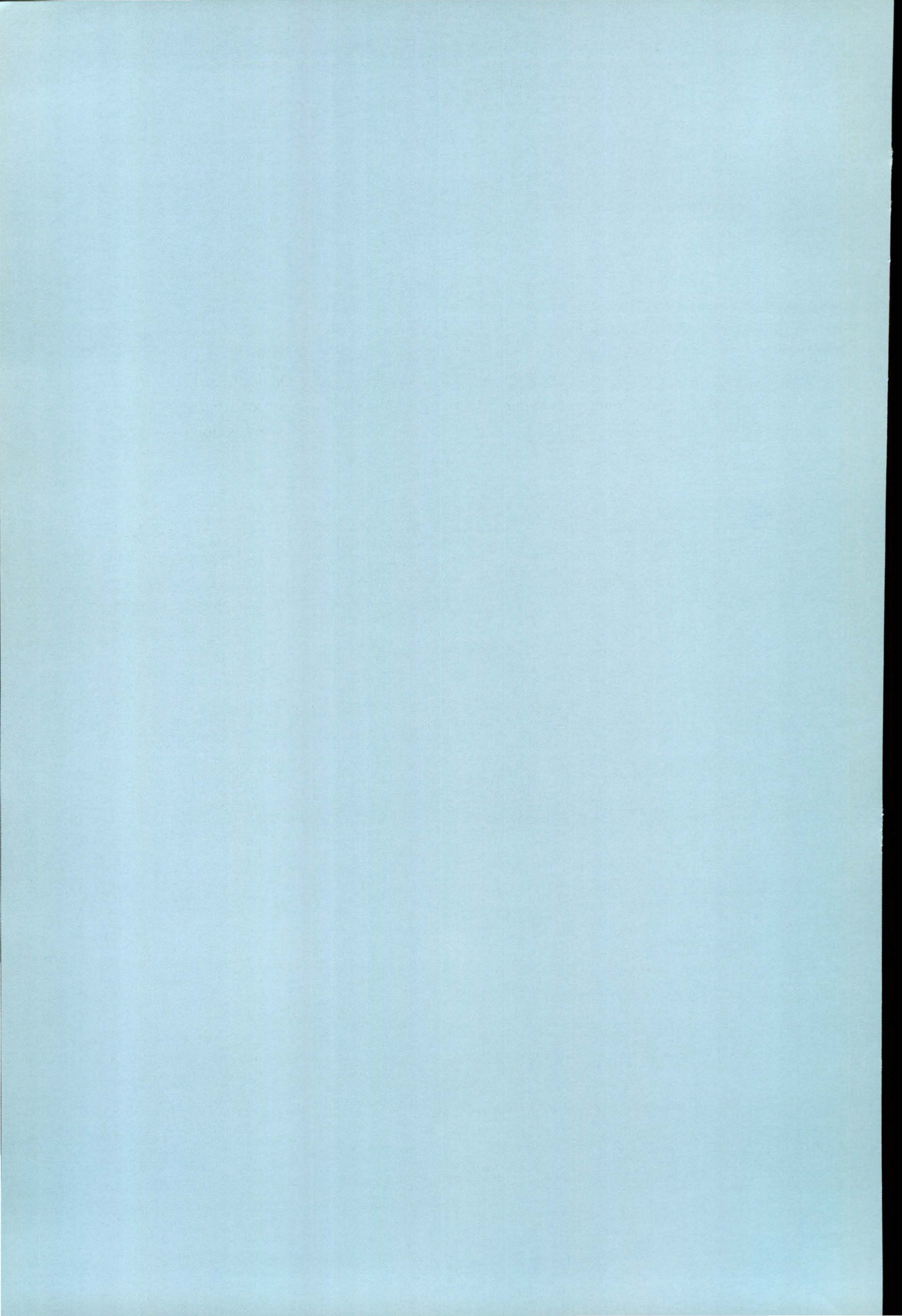
From the records pertaining to payment of royalty by the lessees under DMO Jowai it was observed (March 2015) that two lessees⁸ utilised 15.44 lakh MT of limestone between January 2013 and June 2014 against which, they were liable to pay royalty of ₹ 7.33 crore between July 2013 and July 2014. Though the lessees paid the amount belatedly (after the expiry of the sixtieth day from the due date) on various dates between November 2013 and January 2015, interest amounting ₹ 0.45 crore for belated payment was not levied by the Divisional Mining Officer (DMO). These amounts should be recovered in future payments.

The case was reported to the M&G Department, Government of Meghalaya in April 2015; their reply has not been received (November 2015).

⁸ M/s Adhunik Cement Ltd and M/s Cement Manufacturing Co. Ltd.

CHAPTER-VII

FOLLOW UP REPORT ON PREVIOUS AUDIT RECOMMENDATIONS



CHAPTER-VII: FOLLOW UP AUDIT

7.1 Follow up audit on the audit recommendations pertaining to the Performance Audit on “Transition from Sales Tax to VAT (featured in the CAG’s Audit Report for the year ended 31 March 2009)”

Highlights

➤ Out of the 26 audit/PAC recommendations, the Department accepted 21 recommendations, out of which, the Department had completed action on eight recommendations while in case of five, the Department had initiated action but it was yet to be completed. In case of remaining eight recommendations, the Department had failed to take any action or partially taken action despite accepting them.

Para 7.1.4

➤ The Department stated that three checkgates were computerised while steps were being taken for setting up of integrated checkgates. Audit verification, however, revealed that only two checkgates were fully interlinked while in case of the third checkgate, the modem was damaged and the same had not been replaced.

Para 7.1.4.2

➤ It was observed that that the Taxation Department was yet to create a database of dubious/risky dealers. This resulted in continued loss of revenue due to evasion of tax by unscrupulous dealers as is being pointed out by audit year after year.

Para 7.1.4.7

➤ It was observed that the number of cases scrutinised was very low compared to the number of dealers. However, the Department did not prescribe targets for completion of scrutiny by STs stating that the same was not feasible.

Para 7.1.4.10

➤ The Department had prepared the VAT Manual for audit assessments. However, the Department did not fix a criteria for selection of dealers to provide for flexibility while making such selections.

Para 7.1.4.12

➤ It was observed that the Taxation Department had not prescribed any mechanism for cross-verification of dealers’ records with other departments such as Income Tax, Central Excise *etc.*, in order to detect evasion of tax. Although the Department had issued instructions to the STs to cross-verify the records of doubtful dealers with the Central departments, the STs were yet to comply with the instructions.

Para 7.1.4.16

7.1.1 Introduction

Performance Audits (PAs) are essentially means to improving public sector performance and accountability and this can be achieved through implementation of the recommendations contained in the PAs. Consistent and systematic follow up by the audit with the department towards implementation of the recommendations will contribute significantly towards improving the efficiency in the functioning of the various Government departments.

A follow up audit was carried out with regard to the action taken on audit recommendations relating to the PA on “*Transition from Sales Tax to VAT in Meghalaya*” pertaining to the Taxation Department. The PA was featured in the Audit Report for the year ended 31 March 2009 and was subsequently discussed by the Public Accounts Committee (PAC) in May 2011, following which, the PAC brought out its 37th Report (presented to the State Assembly in September 2011) containing additional recommendations for implementation by the State Government.

7.1.2 Audit Objective

The main objective of conducting the follow-up audit was to assess the progress of the Taxation Department towards implementing the accepted audit recommendations of the PA on “*Transition from Sales Tax to VAT in Meghalaya*” and the recommendations made by the PAC.

7.1.3 Audit Scope and Methodology:

The follow-up audit was conducted between June 2015 and October 2015 and the audit process involved issue of questionnaire to the Taxation Department and the Meghalaya Legislative Assembly and review of the replies including holding discussions with the officers of the Taxation Department. In cases where the Department has assured that action has been taken in line with the audit/PAC recommendation, necessary verification was made. The follow-up audit report has been prepared & finalised after incorporating the replies and the feedback provided during discussions.

7.1.4 Audit Findings:

The PA on “*Transition from Sales Tax to VAT in Meghalaya*” suggested 24 recommendations to be implemented by the Taxation Department. On the basis of audit findings/recommendations, the PAC, while agreeing to the Audit recommendations, made two additional recommendations to be implemented by the Department. Out of the 26 audit/PAC recommendations, the Department accepted 21 recommendations for taking necessary corrective actions.

Of the 21 accepted recommendations, the Department had completed action on eight recommendations while in case of five recommendations, the Department had initiated action but it was yet to be completed. In case of

remaining eight recommendations¹, the Department had failed to take any action or partially taken action despite accepting them.

Action taken by the Taxation Department and audit verification of the same are discussed in the following paragraphs.

7.1.4.1 Reconciliation of Revenue collected (Para No. 2.2.6.2)

Status of recommendation: Implemented

In the earlier Performance Audit it was observed that there was no reconciliation carried out by the Taxation Department with the Accountant General (A&E) resulting in wide variation between the revenue figures booked by the Department and that booked by the AG. Accordingly, it was recommended that suitable guidelines be issued by the Government, for making it mandatory for the controlling offices to carry out reconciliation as per the extant orders.

The Department accepted the audit recommendation and had started the process of quarterly reconciliation of revenue figures with the AG (A&E) from the quarter ended June 2015. Audit verified the same and found it to be in order and the effect of implementation of the recommendation will be seen during next audit.

However, reasons for not doing the same for the last seven years was not explained.

7.1.4.2 Computerisation of the Taxation Department and the check gates and their interlinking (Para No. 2.2.7.1)

Status of recommendation: Partially implemented

It had been observed that the software modules under VAT were yet to be developed while the checkgates had not been computerised and interlinked with the Commissionerate. Accordingly, it was recommended that the Government may expedite interlinking of the check posts and develop the software modules.

It was verified during follow-up that all the remaining software modules such as e-payment, online issue of road permits/declaration forms, e-registration of dealers *etc.*, had been made operational and were fully functional. The Department had taken steps to interlink three major checkgates *i.e.*, Byrnihat, Umkiang and Dainadubi. The Department further stated that steps were being taken for setting up of integrated checkgates and till date, there were no plans to interlink other checkgates due to low volume of trade.

Audit verification, however, revealed that only two checkgates were fully interlinked while in case of the third checkgate, *i.e.*, Dainadubi, although a

¹ Action Not Taken in respect of six recommendations.

Action Partially Taken in in respect of two recommendations.

Very Small Aperture Terminal (VSAT)² satellite communications system had been installed and was functional, the checkgate did not have net connectivity as the modem was damaged and the same had not been replaced. Furthermore, the plan to set up integrated checkgates was in cold storage, as the Transport Department, which was the nodal Department, was yet to initiate action for acquisition of land for setting up of checkgates.

The Department may coordinate with the Transport Department to prioritise the setting up of integrated check gates.

7.1.4.3 Creation of manual (Para No. 2.2.7.2)

Status of recommendation: Implemented

It was observed that the Taxation Department did not have a VAT Manual and accordingly, it was recommended that the Government may expedite the preparation of the VAT Manual.

The Department stated that the VAT manual had since been prepared and approved by the Government. Audit verified the same and found that the VAT manual was in place and was being used by all the departmental officers for assessment, scrutiny *etc.*

7.1.4.4 Completion of assessments under the repealed Acts (Para No. 2.2.7.3)

Status of recommendation: Implementation in progress

Audit observed that the Department had not fixed a time limit for completion of assessments under the erstwhile Taxation Acts as result of which, there were a lot of pending assessments under the Repealed Acts and accordingly, it was recommended that the Government may consider prescribing specific timeframe for completion of the assessments under the Repealed Acts.

The Department stated (September 2015) that the pending assessments under the Repealed Acts had been drastically reduced from 79,398 in March 2009 to 10,917 in July 2012. The Department also stated that up-to-date report was being sought from all unit offices and it was expected that the pending assessments would further decrease.

Audit observed that while the time limit of completing all the assessments by December 2011 was not adhered to, the Department made some progress in bringing down the pending cases of assessments from 99,643 to 10,917 as of July 2012 in respect of 10 out of 15 unit offices. The status of pending assessments could not be verified in any of the unit offices.

² *VSAT is a satellite communications system that serves home and business users. A VSAT end user needs a box that interfaces between the user's computer and an outside antenna with a transceiver. The transceiver receives or sends a signal to a satellite transponder in the sky. The satellite sends and receives signals from an earth station computer that acts as a hub for the system.*

While appreciating the fact that the Department had been able to significantly reduce the number of pending assessments under the Repealed Acts in addition to carrying out scrutiny/assessments under the VAT Act, it is further recommended that the Department may ensure completion of all the pending assessments. Further, if the GST Act is adopted, the Department would have to keep provisions for completion of assessments under VAT as well before moving to GST. Moreover, in all cases, prescribed time limit should be adhered to.

7.1.4.5 Carrying forward of the Database of all the dealers under the repealed Acts and confirmation of the securities provided by them (Para No. 2.2.8.1)

Status of recommendation: Implemented

Audit observed that many of the dealers under the Repealed Acts did not carry forward their business under the VAT, which indicated evasion of tax by such dealers. Accordingly, it was recommended to investigate the turnover of such dealers and levy tax, interest and penalty as per the provisions of the MVAT Act. The PAC further recommended that the Department may update the database on a continuous basis so as to reduce the scope for tax evasion.

The Department stated (September 2015) that all the dealers who migrated from Repealed Acts to VAT reflected the stock carried forward during the transition period. Audit verified the same and found that in all cases checked during regular transaction audits, the dealers were actually carrying forward the stock from the Repealed Acts to VAT.

7.1.4.6 Periodic analysis of dealers below the threshold (Para No. 2.2.8.3)

Status of recommendation: Implemented

Audit observed that there was no system for periodic scrutiny of the dealers to see if such dealers had crossed the threshold limit of ₹ 1 lakh and were liable for registration. Accordingly, it was recommended that the Government may consider prescribing a system for periodic verification of books of accounts of dealers to detect cases of dealers crossing the threshold limit.

The Department stated (September 2015) that a Survey team was put in place which regularly inspected the business activities of dealers to see if any of the dealers had crossed the threshold. Based on the efforts of the team, 24 dealers had been compulsorily registered by the ST, Nongpoh during the last three years. The fact that such dealers could be identified only after institution of a Survey Team corroborates audit opinion that a system was needed for detection of unregistered dealers.

7.1.4.7 Database of dubious/risky dealers (Para No. 2.2.8.4)

Status of recommendation: Action yet to be taken

The PAC had recommended that a database of risky/dubious dealers be created based on their past history of fraud/concealment *etc.*, and make the same available to the next audit along with action taken against them.

It was observed that that the Taxation Department was yet to create any such database of dubious/risky dealers. This has resulted in continued loss of revenue due to evasion of tax by unscrupulous dealers as is being pointed out by audit year after year.

It is therefore reiterated that the Department may expedite the process of preparation of the database, which will help in keeping a watch on the business activities of such dealers.

7.1.4.8 Deficiencies in the forms for submission of returns (Para No. 2.2.9.1)

Status of recommendation: Implemented

It was observed that the Department had not prescribed any form for submission of returns by dealers who did not opt for payment of composite tax. It was accordingly recommended that the Government may prescribe the monthly/annual return forms for the general dealers.

The Taxation Department acted on the recommendation and amended Rule 30 of MVAT Act by prescribing quarterly returns for the general dealers.

7.1.4.9 Mechanism to monitor filing of returns Para (No. 2.2.9.2)

Status of recommendation: Implementation in progress

It was observed that there was no system for monitoring the timely submission of returns by dealers. It was accordingly recommended that the Government may take appropriate steps for regular monitoring of timely receipts of the returns and prompt action against the defaulters.

The Taxation Department had instructed all the STs to maintain registers for monitoring submission of returns by dealers. Audit verification revealed that the field offices were yet to maintain such registers. As such, the field offices had no control mechanism in place to detect timely submission of returns. This resulted in non-submission of returns and non-payment of tax by unscrupulous dealers who had subsequently closed down their businesses in the State resulting in loss of revenue to the State exchequer³.

It is therefore reiterated that the Department may expedite the process of creating a monitoring mechanism to check timely submission of returns.

³ Instances have been pointed out in the Audit Report for the year ended 31 March 2014.

7.1.4.10 Scrutiny and verification of returns (Para No. 2.2.9.3)

Status of recommendation: No action taken

It was observed that the number of cases scrutinised was very low compared to the number of dealers and there were no provisions also for submission of reports by STs to the Commissionerate showing the number of cases scrutinised *vis-à-vis* the prescribed target. It was accordingly recommended that the Government may take immediate action to fix norms quantifying the number of scrutiny to be completed by each ST during a particular period including a mechanism for monitoring the compliance of such orders.

The Taxation Department stated (September 2015) that prescribing targets for completion of scrutiny by STs was not feasible. The Commissioner of Taxes (COT) had however directed all the STs to speed up the process of scrutiny. The Department also stated that no further action could be taken.

It is reiterated that the Department may look into the possibility of fixing a realistic target for scrutiny for STs, with a view to evaluating the performance of the STs against such targets.

7.1.4.11 Result of scrutiny of the returns conducted by audit (Para No. 2.2.9.4)

Status of recommendation: Implementation in progress

Audit observed several mistakes in scrutiny due to absence of proper guidelines. Accordingly, it was recommended the Government may consider issuing guidelines, prescribing the points to be checked while scrutinising the returns. The PAC also recommended that the Department may complete scrutiny of the returns of the remaining dealers at the earliest and to take appropriate action accordingly in order to check the concealment of the taxable turnover of the dealers.

The Taxation Department stated that the COT had directed (August 2015) all the STs to speed up the process of scrutiny and submit a status report on the same. Further reply was awaited.

It was observed that the Department was yet to issue any guideline or checklist prescribing the points to be seen while carrying out scrutiny. This resulted in detection of several cases of mistakes in scrutiny by audit year after year.

It is therefore reiterated that the Department may issue guidelines for scrutiny of returns by the STs.

7.1.4.12 Tax Audit (Para No. 2.2.10)

Status of recommendation: Partially Implemented

It was observed that neither any percentage had been fixed for tax audit nor had the criteria for selection of dealers been prescribed. It was accordingly recommended that the Government may prescribe the criteria, timeframe

and percentage of the dealers and frame the VAT manual so that the audit assessments could be started.

The Department stated (September 2015) that the VAT Manual had already been approved and was in place. As regards fixing criteria for selection of dealers, the Department stated that such a criteria could not be fixed ostensibly to provide for flexibility while making such selections and hence no further action was required to be taken.

The reply is not acceptable as fixation of criteria for selection of dealers is essential in order to bring the element of transparency in the selection process.

7.1.4.13 Input Tax Credit (Para No. 2.2.11)

Status of recommendation: Action not taken

It was observed that in the absence of a system of cross-verification of the records of selling dealers there were cases of irregular allowance of Input Tax Credit (ITC). Accordingly, it was recommended that the Government may prescribe a system of cross verification of the records of the selling dealers on a random basis before allowing the ITC. They may also consider amending the format of the returns to provide for the particulars of the goods in the form.

The Department stated that the present system of scrutiny of returns based on the statement of purchases supported by tax invoices together with other documents prescribed under MVAT Rules was sufficient and no further action was required to be taken. The Department communicated the same to the PAC as well.

Considering the fact that VAT was in a nascent stage in 2008-09 (the period of the PA) and as the VAT system has matured over the last few years, the Department has been able to successfully carry out scrutiny based on the system prescribed.

7.1.4.14 Deficiencies in the provision relating to goods taxable at the first point (Para No. 2.2.12.2)

Status of recommendation: Implemented

It was observed that due to deficiencies in the MVAT Act pertaining to sale of liquor which was taxable at the first point of sale, there was loss of revenue. The PAC recommended that Section 44 of the MVAT Act may be amended in order to rectify the deficiencies in the provisions pertaining to goods taxable at first point of sale.

The Taxation Department amended Section 44 of the MVAT Act in March 2012.

No further action is required.

7.1.4.15 Irregular grant of incentives to exempted industrial units (Para No. 2.2.14)

Status of recommendation: Implemented

It was observed that there was loss of revenue due to grant of ITC to industrial units which were availing benefits under the Meghalaya Industrial Remission Scheme. It was accordingly recommended that the Government may review the issue and consider retrospective amendment of the provisions of the industrial schemes.

The Department stated (September 2015) that the Industrial Remission Scheme had been amended retrospectively with effect from July 2009 by withdrawing the benefit of ITC to industrial units which were getting benefits under the Industrial Scheme. The notification was further modified⁴ through another notification dated August 2012.

Audit verified the same and observed it to be in order. No further action required.

7.1.4.16 Deficiencies in the provision for cross verification of the records of other departments like Central Excise, Income Tax Department, etc. (Para No. 2.2.15)

Para 2.2.15.1 Status of recommendation: Implementation in progress

A It was observed that there was loss of revenue due to absence of a system for monitoring the goods passing through Meghalaya and bound for other States. It was accordingly recommended that the Government consider a mechanism for effective monitoring of the vehicles carrying goods meant for other States passing through Meghalaya to arrest this problem.

The Taxation Department stated (September 2015) that the Act and Rules were sufficient to address the issue of goods in transit passing through Meghalaya and bound for other States. The COT further directed (June 2015) the ST of the Enforcement Branch (EB), Shillong to ensure that there was no offloading of goods in Meghalaya while in transit. Audit verification revealed that the ST, EB had been successful in detecting few cases of irregular offloading of goods while in transit and realised appropriate tax and penalty from the defaulters.

Para 2.2.15.2 Status of recommendation: Action not taken

B It was observed that the Taxation Department had not prescribed any mechanism for cross-verification of dealers' records with other departments such as Income Tax, Central Excise *etc.*, in order to detect evasion of tax. It was recommended that provisions be made in the MVAT Act for cross-

⁴ The new notification provided for the date from which the previous notification would come into effect.

verification of the dealers' records with those of Income Tax, Central Excise etc.

The Department stated that instructions had been issued⁵ (June 2011) to the STs to cross-verify the records of doubtful dealers with the Central departments. Audit verification revealed that the STs were yet to comply with the instructions.

It is reiterated that the COT may take up the matter with the STs to ensure that all doubtful cases are cross-verified with Central departments before completion of scrutiny/assessments etc. In this regard, submission of a periodical report may be prescribed for all the STs in order to ensure compliance.

Para 2.2.15.3 Status of recommendation: Implemented

☐ It was observed that the Department had not issued instructions for verification of the declaration forms from the centralised database system called TINXSYS. It was accordingly recommended that the Department may issue instructions to all the STs to verify the details of declaration forms in TINXSYS before allowing exemption /concessional rate of tax.

The Taxation Department stated (September 2015) that instructions had been issued to all STs (January 2013) to use the TINXSYS to verify the authenticity of declaration forms before carrying out assessments.

Audit verification revealed that the STs were complying with the order and results of such verifications were available in the case records of the dealers. Audit further reiterates that the COT may direct the STs to submit periodical information pertaining to the number of declaration forms verified by the STs so as to eliminate the possibility of assessments without verification of details.

7.1.4.17 System of sending the details of works contract/purchases by the works/buying Departments to the Taxation Department (Para No. 2.2.16.1)

Status of recommendation: Implementation in progress

It was observed that the Works/buying Departments failed to share details of work contracts/purchases with the Taxation Department resulting in evasion of tax by contractors/suppliers. It was accordingly recommended that the Government may prescribe a system for periodic verification of the records of the works/buying departments by the STs in order to detect cases of non/short deduction of tax at source. The PAC further recommended that legal action may be taken against few departments in order to set a deterrent for others.

⁵ The COT directed all the STs to ascertain the returns of turnover submitted by dealers to the Central departments with those submitted to the Taxation Department.

The Department stated (September 2015) that despite issuing instructions time and again to all administrative departments of both Central and State Government to deduct tax at source from the bills of contractors and suppliers, the same was not complied with by the departments. The Department had requested the Government to clarify if sanction was needed to prosecute the Drawing & Disbursing Officers of the erring departments under Section 90 of the MVAT Act.

It is again reiterated that the Department may convene a meeting at the highest level with all the Works/buying departments in order to ensure that they comply with the instructions to deduct tax at source. Further, the Taxation Department may bring the issue of non-compliance by the erring departments and sanction of DDOs' prosecution under the MVAT Act before the PAC.

7.1.4.18 Bar on purchase/engagement from/with unregistered dealers by buying departments (Para No. 2.2.16.2)

Status of recommendation: Action not taken

It was observed that there was no bar on buying departments from awarding works contracts/supply contracts to unregistered dealers. It was accordingly recommended that the amendment be made in the Act/Rules by banning the Government departments from entering into works/supplies/contracts with unregistered dealers.

The Taxation Department was yet to intimate any action taken in this regard. This resulted in loss of revenue due to non-registration of dealers undertaking works contracts as has been pointed out in the Report on the theme "*Deduction of tax at source*" to be featured in the Audit Report for the year ended 31 March 2015.

Since the MVAT Act already provides for registration of dealers, the Taxation Department may issue notification/public order directing all works/buying departments to ensure that no works/supply contracts are awarded to unregistered dealers.

7.1.4.19 Internal Control (Para No. 2.2.18)

Status of recommendation: Action not taken

It was observed that the Department did not have adequate internal controls to regulate its functioning. It was accordingly recommended that mechanism for internal control including internal audit be strengthened.

The Department did not take any action on the matter stating that the instructions issued by the COT to the field offices from time to time were adequate. The Department also stated (September 2015) that as the audit of the taxation offices was undertaken both by Audit as well as the Examiner of Local Accounts, no additional internal audit wing was required.

Audit observed that in the absence of any internal audit, the Department had no mechanism to monitor its own functioning and benchmarking the performance of its different wings and field offices. This has resulted in huge under recoveries of revenue as detected by audit year after year due to lapses in the functioning of the field offices which could have been avoided had there been an internal monitoring mechanism in place.

It is therefore reiterated that the Department may consider the possibility of setting up an internal audit wing to address the various lapses in the functioning of field offices.

7.1.5 Conclusion

The fact that the Taxation Department had completed the implementation of eight recommendations with implementation in progress in another five indicated willingness on the part of the Department to address the issues detected by audit. In cases where the Department had not taken any action or partially taken action, the following course of action is suggested:

- the Department may coordinate with the Transport Department to prioritise the setting up of integrated check gates;
- the Department may ensure completion of all the pending assessments and also keep provisions for completion of assessments under VAT as well before moving to GST in future;
- the Department may expedite the process of preparation of the database which will help in keeping a watch on the business activities of unscrupulous dealers;
- the Department may expedite the process of creating a monitoring mechanism to check timely submission of returns;
- the Department may look into the possibility of fixing a realistic target for scrutiny for STs, with a view to evaluating the performance of the STs against such targets;
- the Department may issue guidelines for scrutiny of returns by the STs;
- the Department may provide for fixation of criteria for selection of dealers for audit assessment in order to bring the element of transparency into the selection process;
- the COT may take up the matter with the STs to ensure that all doubtful cases are cross-verified with Central departments before completion of scrutiny/assessments etc. In this regard, submission of a periodical report may be prescribed for all the STs in order to ensure compliance;
- the COT may direct the STs to submit periodical information pertaining to the number of declaration forms verified by the STs so as to eliminate the possibility of assessments without verification of details;


- the Department may convene a meeting at the highest level with all the Works/buying departments in order to ensure that they comply with the instructions to deduct tax at source. Further, the Taxation Department may bring the issue of non-compliance by the erring departments and sanction of DDOs' prosecution under the MVAT Act before the PAC;
- the Taxation Department may issue notification/public order directing all works/buying departments to ensure that no works/supply contracts are awarded to unregistered dealers; and
- the Department may consider the possibility of setting up an internal audit wing to address the various lapses in the functioning of field offices.

Shillong
The **8 February 2016**


(Rajesh Singh)
Accountant General (Audit)
Meghalaya

Countersigned

New Delhi
The **9 February 2016**


(Shashi Kant Sharma)
Comptroller & Auditor General of India



ANNEXURES

Annexure-I (Reference: Para 2.4.7)

Name of the Checkgate	Year-wise collection of revenue by the check gates (in Rupees)						TOTAL
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
Byrnihat	30,97,304	19,26,034	1,38,29,838	22,85,714	80,34,009	15,69,4803	4,48,67,702
Dainadubi	2,47,97,560	3,67,44,840	14,75,78,890	14,79,97,576	12,65,28,778	21,,09,66,008	69,46,13,652
Umkiang	71,48,475	71,10,800	1,05,57,567	80,17,058	52,07,933	63,57,476	4,43,99,309
Bajengdoba	10,000	20,550	1,67,500	1,46,790	34,500	13,29,850	17,09,190
Athiabari	50,81,040	24,24,840	16,95,084	1,95,146	21,50,147	59,99,019	1,75,45,276
Tikrikilla	19,190	37,300	39,700	1,61,440	2,27,500	9,600	4,94,730
Garampani	0	0	0	0	0	0	0
Garobadha	0	0	0	133,120	2,08,000	1,54,600	4,95,720
Mendipathar	0	36,000	8,000	26,250	3,36,005	41,231	4,47,486
Iew Mawroh	0	0	0	0	0	0	0
Umsiang	0	0	0	0	0	0	0
Total	4,01,53,569	4,83,00,364	17,38,76,579	15,89,63,094	14,27,26,872	24,,05,52,587	80,45,73,065

Source: information furnished by the in-charge of taxation check gates

Annexure II (Reference Para 2.5.7.1)
Statement showing details of cases pertaining to concealment of turnover by contractors

Sl. No	Name of the contractor (TIN No)	Period	Name of the DDO	Work Value (VAT to be deducted)	VAT actually deducted	Short deduction	TDS challans actually furnished to ST offices	Audit observations on the basis of examination of the dealers'/contractors' records in the ST offices
1	R B Corporation (17160222083)	Between April 2009 to March 2013	NH cum Central Division, Tura	₹ 5.10 crore (₹ 0.48 crore)	₹ 0.18 crore	₹ 0.30 crore	₹ 0.06 crore	During the period from April 2009 to March 2013, the contractor disclosed sales turnover of ₹ 4.13 crore in his returns and submitted TDS challans of ₹ 0.44 crore, out of which, tax amount of only ₹ 0.12 crore involving turnover of ₹ 1.29 crore pertained to works executed under NH Division and the remaining TDS challans were for works executed under other Departments. Thus, the contractor concealed turnover of ₹ 3.81 crore relating to the works executed by him under NH Division, Tura resulting in evasion of tax amounting to ₹ 0.30 crore.
2	RGS Construction Company (17070426079)	Between March 2011 to March 2013	EE, PWD, NH Division, Shillong	₹ 8.01 crore (₹ 0.81 crore)	₹ 0.39 crore	₹ 0.41 crore	₹ 0.39 crore	During the period from March 2011 to March 2014, the contractor disclosed sales turnover of ₹ 4.84 crore in his returns (which included exempted sales of ₹ 1.21 crore and taxable sales turnover of ₹ 3.63 crore) and submitted TDS challans of ₹ 0.49 crore, out of which, tax amount of only ₹ 0.39 crore involving turnover of ₹ 4.10 crore pertained to works executed under EE, NH Division, Shillong and the remaining TDS challans were for works executed under other Departments. Thus, the contractor concealed turnover of ₹ 3.91 crore relating to the works executed by him under NH Division, Shillong resulting in evasion of tax amounting to ₹ 0.41 crore.
3	Joseph Ch Marak (17160384073)	Between May 2012 to May 2013		₹ 0.47 crore (₹ 0.05 crore)	₹ 0.03 crore	₹ 0.02 crore	--	During the period from September 2009 to March 2014, the contractor disclosed sales turnover of only ₹ 0.65 lakh in his returns in support of which, no TDS challans were submitted. Thus, the contractor concealed the tax short deducted by the DDO resulting in evasion of tax amounting to ₹ 0.02 crore.
4	Artist Pyngrope (17061014072)	Between September 2009 to March 2014	EE PWD Central Division and EE, PWD Building Division, Shillong	₹ 1.01 crore (₹ 0.10 crore)	₹ 0.06 crore	₹ 0.04 crore	--	During the period from September 2009 to March 2014, the contractor disclosed sales turnover of ₹ 0.38 crore in his returns and submitted TDS challans of ₹ 0.05 crore were submitted by the dealer, out of which, tax amount of only ₹ 0.43 lakh involving turnover of ₹ 0.05 crore pertained to works executed under EE PWD Central and EE, PWD Building Divisions, Shillong and the remaining TDS challans were for works executed under other Departments.

								Thus, the contractor concealed turnover of ₹ 0.96 crore relating to works executed by him under the two Divisions resulting in evasion of tax amounting to ₹ 0.04 crore.
5	Donbok Myria (17101995020)	Between October 2005 and September 2013	EE, Health Engineering wing, Meghalaya, Shillong	<u>₹ 1.52 crore</u> (₹ 0.15 crore)	₹ 0.01 crore	₹ 0.14 crore	--	During the period from September 2009 to March 2014, the contractor disclosed sales turnover of ₹ 0.42 crore in his returns and submitted TDS challans of ₹ 0.04 crore, all of which was in respect of works executed under other Departments. Thus, the contractor concealed the entire turnover of ₹ 1.52 crore relating to the works executed by him under EE, Health Engineering wing, Shillong resulting in evasion of tax amounting to ₹ 0.14 crore.
Total				<u>₹ 16.11 crore</u> (₹ 1.59 crore)	₹ 0.67 crore	₹ 0.92 crore	₹ 0.45 crore	Remarks: <i>The fact that TDS challans amounting to ₹ 0.22 crore was not furnished by the DDOs to the ST offices indicates that the TDS amount was collected but not deposited by the DDOs.</i>

Annexure – III (Reference Para 3.6)*Revenue not realised due to non-renewal of retail licences*

Sl.No.	Name of licensee	Year	Rate of Licence fee payable (₹)	Total Amount due (₹)
SE, Tura				
1.	Trinistone D.Sangma	2014-15	60000	60000
2.	Farroq R.Marak	2013-14 2014-15	60000 60000	120000
3.	Mckiver Marak	2013-14 2014-15	60000 60000	120000
4.	Livingstone Sangma	2014-15	60000	60000
5.	John Kennedy Ch.Momin	2014-15	60000	60000
6.	Sengra R. Marak	2014-15	60000	60000
7.	Neruish M.Sangma	2013-14 2014-15	60000 60000	120000
8.	Mira Koch	2013-14 2014-15	60000 60000	120000
9.	Mridula Koch	2014-15	60000	60000
10.	Mosamika N. Sangma	2013-14 2014-15	60000 60000	120000
11.	Lucy Ch Marak	2013-14 2014-15	60000 60000	120000
12.	Jingjang M .Marak	2013-14 2014-15	60000 60000	120000
13.	Garfield N Marak	2013-14 2014-15	60000 60000	120000
14.	Dipu Kr. Das	2013-14 2014-15	60000 60000	120000
15.	Sanjay D. Sangma	2014-15	60000	60000
16.	Litdilla D. Sangma	2014-14	60000	60000
17.	Jenitha Saangma	2014-15	60000	60000
18.	Geeta Rani Saha	2014-15	60000	60000
19.	Pramod Hajong	2014-15	60000	60000
20.	Suchitra R. Marak	2013-14 2014-15	60000 60000	120000
21.	Manindra Ch.Das	2014-15	60000	60000
22.	Rajesh M. Sangma	2014-15	60000	60000
23.	Anand Deo Pandey	2014-15	60000	60000
24.	Sanjay Koch	2014-15	60000	60000
25.	Kresser Marak	2014-15	60000	60000
26.	Aloka Koch	2014-15	60000	60000
27.	Upendra Modak	2014-15	60000	60000
28.	Ripon Modak	2014-15	60000	60000
29.	Binaroy Sangma	2014-15	60000	60000
30.	Jitherson A.Sangma	2013-14	60000	60000
31.	Saroda Rabha	2014-15	60000	60000
32.	Ronald Rehman Sangma	2013-14 2014-15	60000 60000	120000
33.	Joystina N. Sangma	2014-15	60000	60000
34.	Doyali Rabha	2014-15	60000	60000
35.	Gary Mitchel K. Marak	2014-15	60000	60000
36.	Silchang A. Sangma	2014-15	60000	60000
37.	Probin Mann	2014-15	60000	60000
38.	Sanjay A. Sangma	2014-15	60000	60000

39.	Ruparam A. Sangma	2013-14	60000	60000
40.	Manash Marak	2014-15	60000	60000
41.	Munarlin Marak	2014-15	60000	60000
SE, Williamnagar				
42	Dicky C. Marak	2010-11	60000	300000
		2011-12	60000	
		2012-13	60000	
		2013-14	60000	
		2014-15	60000	
43	Gatchen N Sangma	2014-15	60000	60000
44	Priya Ch. Marak	2012-13	60000	180000
		2013-14	60000	
		2014-15	60000	
Total				3660000

Annexure – IV (Reference Para 3.7)

Loss of revenue due to cancellation of licences without realising the outstanding licence fee

Name of the SE	Name of the licensee	Type of licence	Years outstanding	Amount due	Amount payable
SE, Baghmara	Kalu R Marak	IMFL	2007-08	42000	92000
			2008-09	50000	
	Sheckerson Sangma	IMFL	2006-07	42000	184000
			2007-08	42000	
			2008-09	50000	
	Rangrik Sangma	IMFL	2005-06	42000	176000
			2006-07	42000	
2007-08			42000		
2008-09			50000		
SE, Khliehriat	Denis Siangshai	BAR	2011-12	50000	50000
			2011-12	50000	50000
			2010-11	35000	115000
			2011-12	35000	
			2012-13	45000	
Total					667000

Annexure – V (Reference Para 3.9)

Revenue not realised due to failure to register brand names

Sl No	Name of the Company	Brand's Name	Size (in ml)	Amount Due (₹)
1	Beam Global Spirits & Wine (India) Pvt Ltd, Kolkata	Teacher's Origin Blended Scotch Whisky	375	60000
2	Bhutan Brewery Pvt Ltd, Bhutan	Druk 11000 Super Strong Beer	650	35000
3	Carlsberg India Pvt Ltd	Tuborg Booster Strong Premium Beer	650	35000
4	United Spirits Ltd	Smirnoff Honey	750	35000
		Smirnoff Honey	180	35000
		Smirnoff Chili	750	35000
		Smirnoff Chili	180	35000
5	Marwet Bottling Industries, Khanapara	Royal Champion Premium Whisky	750	60000
		Royal Champion Premium Whisky	375	60000
		Royal Champion Premium Whisky	180	60000
		Royal Amigoz Original Dark Rum	750	60000
		Royal Amigoz Original Dark Rum	375	60000
		Royal Amigoz Original Dark Rum	180	60000

		Royal Celebration Special Whisky	750	60000
		Royal Celebration Special Whisky	180	60000
		Royal Celebration Special Rum	750	60000
6	Mayell & Fraser Pvt Ltd	Castle Pride Delux Grain Whisky	750	60000
		Castle Pride Delux Grain Whisky	375	60000
		Castle Pride Delux Grain Whisky	180	60000
7	Mohan Meakins Ltd	Old Monk Gold Reserve Rum	750	60000
		Old Monk Gold Reserve Rum	375	60000
		Old Monk Gold Reserve Rum	180	60000
		Old Monk White Rum	750	60000
		Old Monk White Rum	375	60000
		Old Monk White Rum	180	60000
		Old Monk Legend Rum	1000	60000
8	United Breweries Ltd	Kingfisher Premium Lager Beer	330	35000
		Kingfisher Premium Lager Beer	650	35000
		Kingfisher Strong Premium Beer	650	35000
		Kingfisher Strong Premium Beer Can	500	35000
		Kingfisher Premium Lager Beer (Can)	500	35000
		Kingfisher Blue Premium Beer	650	35000
		Kingfisher Blue Premium Beer	330	35000
		Kingfisher Blue Premium Beer (Can)	500	35000
9	United Spirits Ltd	Director's Special Prestige Whisky	750	60000
		Director's Special Prestige Whisky	750	60000
		Director's Special Prestige Whisky	375	60000
		Director's Special Prestige Whisky	180	60000
		McDowell's No.1 Celebration Matured XXX Rum	750(P)	60000
		McDowell's No.1 Celebration Matured XXX Rum	375	60000
		McDowell's No.1 Celebration Matured XXX Rum	180	60000
10	CMJ Breweries Pvt Ltd	Kaltenberg Royal Lager Beer	650	35000
		Kaltenberg Royal Strong Beer	650	35000
		Kaltenberg Royal Strong Beer	330	35000
		Meakins 10000 Super Strong Beer	330	35000
		Nutcracker 9000 Premium strong Beer	650	35000
		Nutcracker 9000 Premium strong Beer	330	35000
		Magpie Premium Lager Beer	650	35000
		Savage Super Strong Beer	330	35000
11	Mohan Meakin Ltd	Old Monk Deluxe Rum	750	60000
		Old Monk Deluxe Rum	750(P)	60000
		Old Monk Deluxe Rum	375	60000
		Old Monk Deluxe Rum	180	60000
		Doctors Triple Crown Pure Grape Brandy	750	60000
		Doctors Triple Crown Pure Grape Brandy	375	60000
		Doctors Triple Crown Pure Grape Brandy	180	60000
		Big Ben Deluxe London Dry Gin	750	35000
		Big Ben Deluxe London Dry Gin	180	35000
12	Allied Blenders & Distillers Ltd	Class 21 Grain Vodka	750	35000
		Class 21 Grain Vodka	375	35000
		Class 21 Grain Vodka	180	35000
		Vodka Gorbatschow	750	35000
		Vodka Gorbatschow	375	35000
		Vodka Gorbatschow	180	35000
		Vodka Gorbatschow Green Apple	750	35000

		Vodka Gorbatschow Green Apple	180	35000
		Vodka Gorbatschow Orange	750	35000
		Vodka Gorbatschow Orange	180	35000
		Vodka Gorbatschow Vanilla	750	35000
		Vodka Gorbatschow Vanilla	180	35000
13	Himalaya Distilleries Ltd	Hercules XXX Rum	375	60000
		Hercules XXX Rum	180	60000
14	Allied Blenders & Distillers Ltd	Officer's Choice Black Exquisite & Rare Whisky	750	60000
		Officer's Choice Black Exquisite & Rare Whisky	375	60000
		Officer's Choice Black Exquisite & Rare Whisky	180	60000
		Officer's Choice Prestige Whisky	1000	60000
15	Tilaknagar Industries Ltd	Blac Power Grain Whisky	750	60000
		Blac Power Grain Whisky	375	60000
		Blac Power Grain Whisky	180	60000
16	Bacardi India Pvt Ltd	Breezer Cranberry	500	35000
		Breezer Jamaican Passion	500	35000
		Breezer Blackberry Crush	500	35000
		Breezer Green Apple	275	35000
		Breezer Island Pineapple	275	35000
		Bacardi Black Rum	750	60000
		Bacardi Black Rum	375	60000
		Bacardi Black Rum	180	60000
17	Jagatjit Industries Ltd	King Henry VIII Blended Scotch Whisky	375	60000
		King Henry VIII Blended Scotch Whisky	180	60000
18.	M/s Axis Enterprises,(P) Custom Bonded Warehouse, Guwahati	The Famous Grouse Blended Scotch Whisky.	750	25000
		Liqueur Cointreau	700	25000
		Svedka Vodka	750	25000
		Sierra Tequila Silver	700	25000
20.	Beam Global Spirits & Wine (India) (P) Ltd, Kolkata	Sauza Tequila Silver	1000	25000
		Courvoisier Cognac VSOP	700	25000
		Laphroaig Islay Single Malt Scotch Whisky 10 Years Old	750	25000
		Fundador Brandy	700	25000
		Teacher's Highland Single Malt Scotch Whisky	750	25000
21.	M/s Diageo India (P) Ltd	Johnie Walker Red Label Blended Scotch Whisky	375	25000
		Taliskar Single Malt Scotch Whisky	750	25000
22.	M/s Tonia Sales Agency, Goa	Marquis De Villard French Brandy VSOP	700	25000
		Deputy Tentation VS Cognac	700	25000
23.	M/s KDC Bonded Warehouse (P) Ltd, Guwahati	Two Ocean Shiraz	750	25000
		Two Ocean Chardonnay	750	25000
		Chateau Cotes Du Rhone	750	25000
		Paul Valmont	750	25000
		Stolichnaya Vodka	750	25000
		Glen Grants Whisky	700	25000
		Grey Goose Vodka	750	25000
		Bombay Sapphire Dry Gin	750	25000
		Camino Real Tequila Blanco	750	25000

24.	Sobieski Beverages India (P) Ltd, New Delhi	Liq Chocolate Royal	700	25000
		Liq Grand Orange	700	25000
		William Peel 12 Years Old Speyside Single Malt Scotch Whisky	700	25000
		St. Jean Wine- Syrah	750	25000
		Tequila san Jose Gold	700	25000
		Tequila san Jose Silver	700	25000
		Fable Wine Merlot	750	25000
		Fable Wine Chardonnay	750	25000
		Cocktail Pitterson Mojito	700	25000
		Cocktail Pitterson Redskowa	700	25000
		Cocktail Pitterson Asian Spirits	700	25000
		Cocktail Pitterson Vodka Orange	700	25000
25.	Pernod Ricard India (P) Ltd., Guwahati	Absolut Pepper	750	25000
		Absolut Vodka Originality	750	25000
Total			5215000	

Annexure – VI (Reference Para 4.4)
Details of weighbridges in the State

Sl. No.	Name of the weighbridge (location)	Period of lease	Lease amount (₹)	Status
1.	Thangskai (NH 40)	21.12.2007 to 19.12.2010	30,00,000	Application rejected in view of the Government decision of June 2010
2.	Mawpun (State PWD Road)	05.12.2008 to 14.12.2011	2,50,000	Application rejected in view of the Government decision of June 2010
3.	Borsora (State PWD Road)	17.11.2008 to 16.11.2011	10,50,000	Application rejected in view of the Government decision of June 2010
4.	Gasuapara (State PWD Road)	12.03.2009 to 11.03.2011	5,00,000	Application rejected in view of the Government decision of June 2010
5.	Athiabari (State PWD Road)	23.08.2007 to 22.08.2010	3,00,000	Did not apply
6.	Shallang (State PWD Road)	15.12.2008 to 14.12.2011	3,50,000	Did not apply
7.	Dobu (NH 62)	10.09.2007 to 09.09.2010	8,00,000	Application not signed by the lessee hence returned back by the Department.
8.	Momin (NH 62)	21.06.2008 to 20.06.2011	27,99,000	Functioning in view of Supreme Court Order
9.	7 th Mile (Pasyih) (NH 40)	25.01.2009 to 24.01.2012	75,00,000	Functioning in view of Supreme Court Order
10.	Umling (NH 44)	15.03.2007 to 14.03.2010	75,00,000	Functioning in view of Supreme Court Order

Short realisation of annual lease amount (Annexure-VI (A))

Name of the weighbridge	Annual Rate (in ₹)	From	To	Period (in days)	New Rate	Amount (in ₹)		
						Realised	To be actually realised	Short realised
Umling	7500000	22/05/2012	19/01/2015	972	12500000	19972603	33287672	13315069
		20/01/2015	31/03/2015	70	50000000	1438356	9589040	8150684
Momin	2799000	22/05/2012	19/01/2015	972	4665000	7453775	12422958	4969183
		20/01/2015	31/03/2015	70	18660000	536795	3578633	3041838
7 th Mile	7500000	01/05/2013	19/01/2015	628	12500000	12904110	21506850	8602740
		20/01/2015	31/03/2015	70	50000000	1438356	9589040	8150684
Total						43743995	89974193	46230198

<i>Non-realisation of annual lease amount (Annexure-VI (B))</i>						
Name of the weighbridge	Annual Rate (in ₹)	From	To	Period (in days)	New Rate	Amount non-realised (in ₹)
Thangskai	3000000	01/05/2013	19/01/2015	628	5000000	8602740
		20/01/2015	31/03/2015	70	20000000	3835616
Mawpun	250000	01/05/2013	19/01/2015	628	416667	716895
		20/01/2015	31/03/2015	70	1000000	319635
Borsora	1050000	01/05/2013	19/01/2015	628	1750000	3010959
		20/01/2015	31/03/2015	70	7000000	1342466
Gasuapara	500000	01/05/2013	19/01/2015	628	833333	1433790
		20/01/2015	31/03/2015	70	2000000	639269
Total						19901370

Annexure VII (Reference Para 4.8)
(Details of certificates of registration not re-registered)

Sl. No.	Type of vehicle	Fee (in ₹)	Number of vehicles	Total (in ₹)
1.	Light Motor Vehicle (LMV)	3000	14012	42036000
2.	Two-Wheeler	300	8701	2610300
3.	Three-Wheeler	600	4	2400
Total			22717	44648700

Annexure – VIII (Reference Para 5.6.1)
Evasion of royalty on limestone

Sl. No.	Name of the Exporter	Quantity of Limestone (in MT) exported month-wise as per DFO (T), Shillong											Total as per DFO (T), Shillong in (MT)	Total as per LCS (in MT)	Difference (in MT)
		Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10			
1.	M/s Bolin Syngkli	100	-	-	150	-	-	-	100	-	-	100	450	3300	2850
2.	M/s K M Lyngrah	100	-	100	100	100	-	100	100	-	-	-	600	12385	11785
3.	M/s Dey Export	100	100	100	100	100	100	100	200	300	100	100	1400	47055	45655
4.	M/s D. Rajee	200	-	300	100	300	100	100	-	-	-	150	1250	27650	26400
5.	M/s Ailadmon Japang	100	-	100	100	200	200	200	-	200	100	200	1400	23260	21860
6.	M/s Rano Kachari	100	-	-	300	400	200	100	200	-	-	100	1400	20600	19200
7.	M/s Berolin Khongshei	300	300	300	-	200	200	300	300	200	100	300	2500	59600	57100
8.	M/s Santi Enterprise	100	-	200	-	100	-	-	100	100	-	200	800	8800	8000
9.	Shri Dhaino Nongrum	100	100	100	-	200	-	-	-	100	-	100	700	2600	1900
10.	M/s Byrong Limestone	100	-	-	-	-	-	-	-	-	-	100	200	1450	1250
11.	Shri Shantanu Kachari	-	200	100	-	100	100	-	-	100	-	100	700	6500	5800
12.	M/s Kynsai Enterprise	-	100	-	-	-	-	100	-	-	-	-	200	5100	4900
13.	M/s Hamlet Syiemlieh	-	-	100	-	100	-	-	100	-	-	-	300	8200	7900
14.	Shri Methas Marwein	-	-	-	-	100	-	100	-	-	-	-	200	1600	1400
15.	Shembhalang Khongrymmmai	100	-	100	-	-	-	200	-	-	-	100	500	4600	4100
16.	M/s B.S. Enterprise	200	100	-	-	100	200	100	200	100	-	-	1000	12725	11725
17.	M/s Debren Nongtraw	-	200	-	-	-	-	-	-	100	-	-	300	1900	1600
18.	Smti Deisyynlla Marbaniang	300	-	100	-	-	200	200	-	100	-	-	900	3850	2950

19	Smti Ion Warjri	-	100	-	-	100	-	-	-	-	-	200	3300	3100
20	M/s K. Singh Wann & Sons	-	-	200	-	-	-	-	-	-	-	200	800	600
21	Shri Paitar War	200	-	-	-	-	-	-	-	-	-	200	800	600
22	Shri Anoop Das	-	-	-	200	-	-	-	-	-	-	200	3000	2800
23	Shri R.S. Gallong	-	-	100	-	-	-	-	-	-	-	100	1200	1100
24	Smti Jellina Marwein	-	-	-	-	100	-	100	-	-	-	200	800	600
25	M/s W. Mawa	-	-	100	100	100	-	-	200	-	-	500	400	0
26	Shri Sandeep Dey	-	-	-	-	-	-	-	-	-	100	100	200	100
27	Smti Sumitrao Boro	-	-	-	-	-	-	100	-	-	-	100	400	300
28	Smti Scarlet Langstieh	-	-	-	100	100	-	-	100	-	-	300	600	300
29	Smti Melbina Rane	100	-	-	-	-	-	-	-	-	-	100	700	600
30	Mr Rajiv Lal Dey	-	100	-	-	100	-	-	-	-	-	200	2900	2700
31	Siantimai Khongrymmai	-	-	100	-	100	-	-	-	100	-	400	9450	9050
Total												17600	275725	258225

Annexure IX (Reference Para 5.7)
Net Present Value not realised

Sl. No	Name of Cement Company	Declared Land holdings	Assessed Forest	Assessed non-forest	Unassessed	Total area inspected (c+d+e)	Uninspected area (b-f)
	a	b	c	d	e	f	g
1.	Amrit Cement Industries Limited	117.140	65.880	51.260	-	117.140	-
2.	Cement Manufacturing Company Limited & Subsidiaries	969.365	165.050	512.543	-	677.593	291.772
3.	Green Valley Industries Limited	112.650	59.740	52.910	-	112.650	-
4.	Goldstone Cement Limited	276.142	68.750	121.411	-	190.161	85.981
5.	Hill Cements Company Limited	131.715	97.715	34.000	-	131.715	-
6.	Meghalaya Cement Limited	515.815	185.730	30.000	57.56	273.290	242.525
Total		2122.827	642.865	802.124	57.56	1502.549	620.278
Total assessed forest area =			642.87 ha.				
Net Present Value @ ₹6.57 lakh/ha =			₹42.24 crore				

Annexure X (Reference Para 5.8)*Short realisation of licence fee*

Sl. No.	Name of the Wood Based Industry	Status	Number of Units	Licence fee paid (₹)	Amount of fees payable (₹)	Short realisation (₹)	Remarks
1.	Byrnihat Wood Industries (P) Ltd., Byrnihat	Non-tribal	2 Sawmill 2 Veneer Mill	120000	40000 <u>200000</u> 240000	120000	New
2.	Shillong Veneer (P) Ltd., Umiam	Non-tribal	3 Sawmills 1 Veneer Mill	40000	60000 <u>100000</u> 160000	120000	New
3.	Domina Pathaw, Umiam	Tribal	4 Sawmills	20000	40000	20000	New
4.	J. Saw & Mills Pvt. Ltd., Umiam	Non-tribal	2 Sawmills 2 Veneer Mill	20000	40000 <u>200000</u> 240000	220000	New
			2 Sawmills 2 Veneer Mill	30000	20000 <u>40000</u> 60000	30000	Renewal
5.	MN Saw cum Veneer Mills Pvt. Ltd., Umiam	Non-tribal	2 Sawmills 2 Veneer Mills	120000	40000 <u>200000</u> 240000	120000	New
6.	Mamata Veneer Products, Umiam	Non-tribal	4 Sawmills	20000	40000	20000	Renewal
7.	Shree Mahabir Industries, Umiam	Non-tribal	2 Sawmills 2 Veneer Mill	30000	20000 <u>40000</u> 60000	30000	Renewal
8.	L.L. Nongrum Timber Industries, Umiam	Tribal	3 Sawmills 1 Veneer Mill	20000	30000 <u>50000</u> 80000	60000	New
9.	Mawthylliang Wood Products Pvt. Ltd., Umiam	Non-tribal	2 Sawmills 2 Veneer Mills	120000	40000 <u>200000</u> 240000	120000	New
10.	Easternwood Suppliers, Nongstoin	Tribal	1 Sawmill 2 Veneer Mills	20000	5000 <u>20000</u> 25000	5000	Renewal
11.	Mawshynrut Veneer Products, Nongstoin	Tribal	2 Sawmills 2 Veneer Mills	20000	20000 <u>100000</u> 120000	100000	New
12.	Manroi Sawmill, Nongstoin	Tribal	2 Sawmills 2 Veneer Mills	20000	20000 <u>100000</u> 120000	100000	New
Total			31 Sawmills 20 veneer mills	600000	1665000	1065000	

