PREFACE

This Report for the year ended 31 March 2011 has been prepared for submission to the Governor under Article 151(2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

This Report presents the results of audit of receipts comprising Sales Tax / VAT, State Excise, Land Revenue, Taxes on Motor Vehicles, Stamp Duty and Registration fees, other Tax and Non-Tax Receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2010-2011 as well as those which came to notice in earlier years but could not be included in previous years' Reports.

OVERVIEW

This Report contains 44 paragraphs and three Performance Audits relating to under assessments/non-realisation/short realisation of penalties, taxes, duties etc. The total money value involved is ₹ 268 crore. Some of the major findings are mentioned below:

I GENERAL

➢ During the year 2010-11, the total revenue raised by the State Government (₹ 873.14 crore) was 20.47 *per cent* of the total revenue receipts (₹ 4,266.02 crore). The balance 79.53 *per cent* of receipts during 2010-11 comprised of State's share of divisible taxes and duties amounting to ₹ 901.65 crore and grants-in-aid amounting to ₹ 2491.23 crore. The revenue raised by the State Government in 2010-11 as compared to 2009-10 was 21.37 *per cent* higher.

(Paragraph 1.1)

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

(Paragraph 1.5.1)

II TAXES ON SALE, TRADE/VAT ETC

A Performance Audit of "Cross verification of Declaration form in Inter-State Trade" and audit of Sales Tax Department revealed the following irregularities:

We found that the Department had not prepared any Budget Estimates and did not maintain a database of concessions/exemptions given under CST.

(Paragraph 2.9.6; 2.9.7)

We found that the online filing of application for declaration forms and their issue has not yet been introduced by the Department; the TINXSYS, site was not being used for verification purposes by the offices. Besides only the declaration form 'C; were uploaded whereas 'F' form were not uploaded, forms were printed in excess of requirement and the Department was saddled with huge closing stock of 'C' and 'F' forms which was fraught with the risk of obsolete and damaged forms.

(Paragraph 2.9.9; 2.9.10)

We found that in four ST field offices 78 dealers submitted 2600 'C' forms after a delay ranging between 9 months and 40 months in violation of the CST Act. In STs, Nongpoh and Jowai, two dealers sold coal, iron and steel etc, valued at ₹ 2.57 crore in course of interstate trade to dealers of Assam and submitted the

portion marked 'DUPLICATE' to the ST instead of the portion marked 'ORIGINAL' which was incorrectly accepted by the assessing officers.

(Paragraph 2.9.13; 2.9.14)

We noticed in Shillong and Williamnagar that on reporting loss of four 'F' forms and closure of business by the dealer, the Department did not issue notices for declaring the forms as invalid/obsolete. We also found that though Taxation Department of Mizoram had notified 14 forms as obsolete the ST , Nongpoh Meghalaya accepted these forms incorrectly. The tax due under these forms was ₹ 19.55 lakh.

(Paragraph 2.9.16; 2.9.17)

We found that dealers under ST, Nongpoh Meghalaya sold taxable goods valued at ₹ 44.19 crore having a tax effect of ₹ 1.83 crore during the period 2004-05 to 2008-09 on declaration forms which were not printed/ not issued by the Commercial Taxes Department of Manipur, Assam and West Bengal States indicating that the forms were not genuine. Thus evasion of tax cannot be ruled out in these cases.

(Paragraph 2.9.18)

The declaration forms furnished by three dealers and accepted by the ST, Nongpoh for sales valued ₹ 47.35 lakh were found irregular on cross verification, since the purchasing dealers in Assam were not found registered for the goods they had purchased. In absence of cross verification such irregularities are not being detected by the Department.

(Paragraph 2.9.19.1)

We noticed that ST, Circle I, Shillong accepted 11 'F' forms in support of claim for exemption of tax and STs, Nongpoh and Jowai accepted 18 'C' forms from unregistered dealers of other states . The concession availed/exempted on these forms was ₹ 32.22 lakh which remain undetected for want of cross verification by the Department.

(Paragraph 2.9.19.3)

We found during cross verification that sale of goods valued at ₹ 11.11 crore was made in excess of the purchases depicted against the Declaration Forms. This escapement of turnover resulted in non levy of tax of ₹ 66.57 lakh.

(Paragraph 2.9.20.1)

We found eleven dealers in five circles concealed turnover of ₹ 1.91 crore and evaded tax of ₹ 23.88 lakh. Besides, penalty of ₹ 47.76 lakh is also leviable for wilful concealment of purchases.

(Paragraph 2.9.21.3)

We found that four dealers registered in ST, Nongpoh purchased goods valued at ₹ 62.38 lakh between 2006-07 and 2009-10 by utilising seven 'C' forms. However our cross-verification revealed that there was variation in nature of commodity purchased as such concessions allowed were incorrect.

(Paragraph 2.9.21.5)

TRANSACTION AUDIT

We notice that the Sales Tax Department detected 6,000 vehicles in which transporters carried taxable goods without proper particulars and levied/ collected composition money of ₹ 0.13 crore instead of ₹ Three crore thereby resulting in short levy/realisation of composition money of ₹ 2.87 crore.

(Paragraph 2.10.1)

Our cross verification of the records of a dealers with two cement manufacturing companies revealed that the dealer purchased cement valued at ₹ 15.84 crore. However, dealer was assessed for ₹ 86.61 lakh only. Thus the dealer, purchase turnover of ₹ 14.97 crore involving tax of ₹ 1.87 crore escaped assessment.

(Paragraph 2.12)

We notice during test check of Williamnagar that the Superintendent Taxes(ST) had not properly verified the records available with him at the time of making the assessments, leading to a concealment of turnover of ₹ 11.97 crore going unnoticed thereby resulting in evasion of tax of ₹ 47.87 lakh

(Paragraph 2.14)

We cross-verified the records of three ST circles with three Government organisations and found that they had not deducted tax at source while purchasing goods worth ₹ 3.12 crore from five dealers resulting in non levy of tax of ₹ 28 lakh

(Paragraph 2.21)

We noticed that a dealer incorrectly claimed deduction of ₹ 44.43 lakh as the value of boulders, stone and sand used in the execution of works contract. This deduction was allowed by the ST which was irregular and resulted in under assessment of tax of ₹ 5.53 lakh. Besides, interest of ₹ 3.55 lakh is also leviable.

(Paragraph 2.23)

We noticed during test check of records of ST, Circle I, Shillong that ST calculated tax at the rate of four *per cent* instead of 12.5 *per cent.* Thus, due to incorrect application of rate, there was short levy of tax of ₹ 17.20 lakh.

(Paragraph 2.28)

III STATE EXCISE

We noticed that laxity on the part of the Commissioner of Excise led to allowing manufacturing and sale IMFL without realisation of licence fee resulted in non-realisation of licence fee of ₹ 12.30 lakh.

(Paragraph 3.7)

IV MOTOR VEHICLE RECIEPTS

The Performance Audit on **'Computerisation of Motor Vehicle Department'** revealed the following:

- We noticed that the Transport Department (TD) had not entered into any annual maintenance contract (AMC) for maintenance and repairing of hardware. Further, 67 *per cent* of the servers, 17 *per cent* of the slim PCs, 55 per cent of the printers, and 75 per cent of UPS with the Department were not functioning as on 30 August 2011.

  (Paragraph 4.7.8.1).

- We noticed that out of the seven DTOs, four DTOs had not completed computerisation of backlog records of 12,150 registered vehicles. The backlog of records of 2.07 lakh driving licenses was not cleared in all the seven DTOs. Thus the State and National Register was incomplete to that extent.

  (Paragraph 4.7.8.2, 4.7.10.4)

- We noticed that there was no fire detection equipment or fire extinguishers to fight any contingencies, in any of the three DTOs visited and the Office of the STA, housing the computer for the National Permit System.

  (Paragraph 4.7.8.3)

- We noticed that in three DTOs the server were switched on and off on daily basis, while in one DTO, the server was switched off at varying intervals and on holidays and weekends. The Department has not laid down any guidelines laying down the necessity of switching on/off the servers. We also noticed that log files were deleted without conducting any analysis leading to loss of audit trail.

  (Paragraph 4.7.8.9)

- We noticed that surcharge was not realised from 399 vehicles out of 19719 private vehicles registered in East Khasi Hills Division. The rates of surcharge could be altered manually as such manual intervention cannot be ruled out due to this.

  (Paragraph 4.7.9.1)

- The data available in the system indicated that three vehicles shared same registration number and 1,308 vehicles shared 654 registration numbers, 1,277 vehicles shared the same set of engine numbers and 44 vehicles shared 22 chassis numbers. Out of these, 112 vehicles were registered after implementation of Vahan.

  (Paragraph 4.7.9.3 and 4.7.9.8)

- 190 non-transport (NT) DLs were issued to 55 applicants authorising the licence holder to drive the same class of vehicle. We further noticed that

1,493 DLs[1] and 27 LLs[2] were issued by recording the name of the licence holder in abbreviation.

(Paragraph 4.7.10.2)

- We found abnormal delays ranging from 31 to 183 in issuing 453 learner licence (LLs). Similarly the delay in issuing 1,300 driving licence (DLs) ranged from 31 days to 461 days. There was no time limit had been set for issue of LLs and DLs.

(Paragraph 4.7.10.5)

VI FOREST RECEIPTS

A Performance Audit on **"Forest Receipts"** revealed the following:

- Revenue of ₹ 2.84 crore could not be earned during 2005-06 to 2010-11 due to non settlement of *mahals*.

(Paragraph 6.5.7)

- There were 162 illegal sawmills operating in the state as against 41 licensed sawmills.

(Paragraph 6.5.8)

- 26 *per cent* of reserved forests in Jaintia Hills Division (JHTD) were encroached as on March 2011 and not a single encroacher had been evicted by the DFOs. There was inadequate monitoring of the cases filed against encroachers.

(Paragraph 6.5.9)

- The Government had not revised royalties and export fees since November 1998 and October 1999 respectively resulting in foregoing of ₹ 16.99 crore.

(Paragraphs 6.5.10.1 and 6.5.10.2)

- All the six working plans/schemes of the State had not been prepared and submitted to the MOEF, despite creation of a separate office for processing the Working Plans.

(Paragraph 6.5.11.1)

- Failure to harvest the bamboos led to a revenue loss of ₹ 1.20 crore, though Bamboo was identified as the chief marketable product in the Garo Hills Territorial Division (GHTD).

(Paragraph 6.5.11.2)

- In GHTD and Khasi Hills Territorial Division, timber measuring 471.85 cum involving royalty of ₹ 26.76 lakh had been felled and removed illegally

(Paragraph 6.5.12.1)

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[1] East Khasi Hills : 1453 DL,Jowai :1 DL and Ri-Bhoi: 39 DL:
[2] East Khasi Hills: 25 LL and Ri-Bhoi:2LL

- Our cross verification of records of the Taxation and Forest Department for the period 2005-06 to 2010-11 revealed non recovery of ₹ 6.63 crore on account of evasion of royalty and export fee by two firms.

(Paragraph 6.5.12.2)

- Non resolution of differential rates of royalty with District Councils led to charging of two rates for the same products such as *toko* leaves, bamboo and cane, encouraging unhealthy competition between the State and the District councils.

(Paragraph 6.5.12.3)

- Export fee of ₹ 3.95 crore on 13.16 lakh MT limestone extracted from KHTD and JHTD was not levied

(Paragraph 6.5.14)

- Cess of ₹ 4.33 crore on 39.14 lakh MT of limestone extracted during 2005-06 and 2010-11 was not realised by the Department.

(Paragraph 6.5.14.1)

- We found that eight cement factories were setup in Jaintia Hills District without forest clearance. Failure of the State Government in allowing setting up of cement factories without the approval of the Central Government and lack of will to keep their operation in abeyance, resulted in non-recovery of net present value of ₹ 43.45 crore.

(Paragraph 6.5.14.16)

VII MINING AND OTHER NON-TAX RECEIPTS

The delay of 24 months on the part of the Mining and Geology Department (MGD) to notify the revised rates of royalty on coal, led to a total loss of ₹ 147.71 crore to the State

(Paragraph 7.7.2)

We noticed that royalty was not realised by the DMO Williamnagar before despatch of the limestone. Thus, due to non-realisation of royalty, there was non-realisation of revenue of ₹ 54.32 lakh

(Paragraph 7.13)

CHAPTER I-GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenues raised by the Government of Meghalaya during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are shown below:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-111
1.	**Revenues raised by the State Government**					
	• Tax revenue	304.74	319.10	369.44	444.29	571.45
	• Non-tax revenue	184.37	199.35	225.31	275.09	301.69
	Total	**489.11**	**518.45**	**594.75**	**719.38**	**873.14**
2.	**Receipts from the Government of India**					
	• Share of net proceeds of divisible Union taxes and duties	447.18	564.07	595.23	612.38	901.65
	• Grants-in-aid	1,205.90	1,358.86	1,620.66	2115.59	2491.23
	Total	**1,653.08**	**1,922.93**	**2,215.89**	**2727.97**	**3392.88**
3.	**Total revenue receipts of the State Government (1 and 2)**	**2,142.19**	**2,441.38**	**2,810.64**	**3447.35**	**4266.02**
4.	**Percentage of 1 to 3**	**22.83**	**21.24**	**21.16**	**20.87**	**20.47**

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

[1] For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Meghalaya for the year 2010-11. Figures under the head 0020 - Corporation tax; 0021 - Taxes on income other than corporation tax; 0032 - Taxes on wealth; 0037 - Customs; 0038 - Union excise duties; 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - 901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

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

(₹ in crore)

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

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

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

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

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

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

(₹ in crore)

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

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

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

1.1.4 Initiatives for mobilising additional resources

In the State Finance Minister's Budget speech 2010-11[2], the following additional resource mobilisation efforts during 2010-11 were proposed:

(I) Amendment of the Meghalaya Tax on Luxuries (Hotels and Lodging Houses) Act, 1991 to rationalise the tax on room tariff with a view to encourage and promote tourism.
(II) To enhance the rate of VAT on items presently fixed at four *per cent* to five *per cent*.

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

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

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

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

[2] 26 March 2010

1.2 Response of the Government and assurances

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

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

IRs issued upto March 2011 pertaining to the offices under seven Departments[3] disclosed that 154 IRs involving money value of ₹ 1,487.85 crore remained unsettled at the end of June 2011. Of these, 25 IRs containing 83 observations involving money value of ₹ 172.18 crore pertaining to the offices under six Departments[4] had not been settled for more than five years.

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

1.2.2 Departmental Audit Committee Meetings

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

During the year 2010-11, we held three audit committee meetings - two[5] with Excise, Registration, Taxation and Stamps Department and one[6] with Forest Department in which we discussed 155 IRs containing 474 audit observations. As

[3] Forest, Mining & Geology, Sales Tax, Stamps & Registration, State Excise, State Lottery and Transport Departments.
[4] Forest, Mining & Geology, Sales Tax, Stamps & Registration, State Excise and Transport Departments.
[5] October and November 2010
[6] July 2010

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

(₹ in crore)

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

1.2.3 Position of Inspection Reports

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

(₹ in crore)

Year	Opening balance			Addition			Clearance			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2006-07	255	718	834.53	41	192	517.94	21	206	140.86	275	704	1,211.61
2007-08	275	704	1,211.61	38	122	748.75	43	133	273.79	270	693	1,686.57
2008-09	270	693	1,686.57	50	246	980.08	10	122	1,359.79	310	817	1,306.86
2009-10	310	817	1,306.86	38	161	804.30	46	98	279.35	302	880	1,831.81
2010-11	302	880	1,831.81	55	220	269.78	203	444	613.74	154	656	1,487.85

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

1.2.4 Response of the Departments to the draft audit paragraphs

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

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

1.2.5 Follow up on Audit Reports-summarised position

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

A review of outstanding ATNs as of September 2011 on the paragraphs included in the Reports of the Comptroller and Auditor General of India (Revenue Receipts), Government of Meghalaya disclosed that the concerned Departments of the State Government had not submitted *suo motu* explanatory notes on 112 paragraphs of Audit Reports for the years 2008-09 and 2009-10 as mentioned below:

Year of Audit Report	Date of presentation of the Audit Report to the Legislature	Number of paragraphs/reviews included in the Audit Report		Number of paragraphs/reviews for which suo motu replies are awaited	
		Paragraphs	Performance Audits	Paragraphs	Performance Audits
2008-09	28 May 2010	45	2	45	2
2009-10	16 March 2011	64	1	64	1
Total		**109**	**3**	**109**	**3**

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

Year of Audit Report	Number of paragraphs on which recommendations were made by the PAC but ATNs are awaited	Number of PAC Report in which recommendations were made
1982-83	2	16th
1984-85	9	26th 19th
1987-88	1	26th
1988-89	1	20th
1989-90	1	20th
1990-91	11	26th 20th
1991-92	3	26th 20th
1997-98	1	33rd
2008-09	1	37th
Total	**30**	

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

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

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

➢ During the last five years, 32 IRs containing 111 paragraphs involving money value of ₹ 349.23 crore were issued to the Department/Government.

➢ Out of the 32 IRs issued during the last five years, even first reply has not been received in respect of 14 IRs involving money value of ₹ 337.69 crore.

➢ Out of 111 paragraphs involving money value of ₹ 349.23 crore, the Department has accepted paragraphs involving money value of ₹ 10.16 lakh against which, no recovery has been made in all the cases (September 2011). No intimation in respect of the remaining has been given to audit (September 2011).

➢ During 2006-07 to 2010-11, 24 paragraphs and two Performance Audits involving money value of ₹ 1642.45 crore in respect of Transport Department have featured in the Audit Reports of the Comptroller and Auditor General of India, Government of Meghalaya. The Department accepted 7 paragraphs involving money value of ₹ 1236.43 crore and recovered ₹ 4 lakh. No reply has been received in respect of the remaining paragraphs.

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

1.3.1 Recovery of accepted cases

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

(₹ in crore)

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

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

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

1.3.2 Arrears in assessments

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

(No. of assessments)

Category of cases under the Acts	Opening balance at the beginning of the year	Addition during the year	Total	Finalised during the year	Pending at the end of the year	Percentage of finalised cases to the total cases
CST/MST/ VAT	3,25,802	21,621	3,47,423	15,823	3,31,600	4.55
MSL	11,069	331	11,400	164	11,236	1.44
Total	**3,36,871**	**21,952**	**3,58,523**	**15,987**	**3,42,836**	**4.46**

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

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

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

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

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

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

1. The definition of cost price was included in the Meghalaya Excise Rules (Assam Excise Rules, 1945 as adopted by the Government of Meghalaya).

2. Database of risky dealers. The Department has entrusted the Deputy Commissioner of Taxes the work relating to framing the parameters for

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

3. Erection of Integrated checkgate. Action has already been initiated to establish integrated checkgates and the process of site selection is in progress.

4. Dealers having turnover over ₹ 40 lakh. The Commissioner of Taxes had requested National Informatics Centre to develop a database of such dealers.

5. Form for claiming exemption for goods taxable under Schedule V of the MVAT Act. The Department has prepared E-Return formats for cross verification of goods taxable under Schedule V of the MVAT Act.

6. Cross verification with Income Tax/Central Excise Department. The Commissioner has issued instructions for mandatory cross verification of particulars with Income Tax/Central Excise Departments.

7. The Commissioner has already issued instructions to the STs to furnish monthly return showing submission of returns/registration of dealers etc., to him. Instructions have also been issued for supervisory inspection by the DCT/ACT.

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

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

1.4 Planning for audit during 2010-11

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* include critical issues in government revenues and tax administration i.e. budget speech, white paper on state finances, reports of the finance commission (State and Central), recommendations of the taxation reforms committee, statistical analysis of the revenue earnings during the past five years, features of the tax administration, audit coverage and its impact during past five years etc.

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

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

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

1.5.2 This Report

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

EXECUTIVE SUMMARY

Substantial increase in tax collection	In 2010-11, the collection of taxes on sale of goods substantially increased by 27.53 *per cent* over the previous year which was due to revision of rate of tax, increase in sale of goods in course of inter-state trade, enforcement activities and arrear collection.
Internal audit not conducted	Internal audit of the Sales Tax Department has not been conducted for the past few years by the Examiner of Local Accounts who is responsible to conduct internal audit of Government Departments. This resultantly had its impact in terms of weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omissions on the part of the assessing officers remaining undetected till we conducted our audit.
Low recovery by the Department of observations pointed out by us earlier years	During the period 2005-06 to 2009-10, we had pointed out non/short levy non/short realisation of tax, penalty etc with revenue implication of ₹ 1878.87 crore in 115 cases. Of these, the Department/ Government accepted audit observations in 22 cases involving ₹ 962.49 crore but recovered only ₹ 167.42 crore in one case. The recovery position as compared to acceptance of objection was 17.39 *per cent*.
Result of audit conducted by us in 2010-11	In 2010-11, we test checked the record of 55 units relating to taxes on sale of goods and found non/short realisation/levy of tax, interest, penalty and other deficiencies of ₹ 271.54 crore in 133 cases. The Department accepted non/short realisation/levy of tax ₹ 8.51 crore in 54 cases. An amount of ₹ 2.55 crore was recovered in 22 cases.
What we have highlighted in this chapter	In this chapter, we present illustrative cases of ₹ 54.08 crore selected from

	observations noticed during our test check of records relating to assessment and collection of tax in the office of the Superintendent of Taxes (ST) where we found that the provisions of the Acts/Rules were not observed. It is a matter of great concern that similar omissions have been pointed out by us repeatedly in the Audit Reports of the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the STs were unable to detect these mistakes.
Our conclusion	**The Department needs to improve the internal control system including strengthening of internal audit so that weakness in the system are addressed and omissions of the nature detected by us are avoided in future.** **It also needs to initiate immediate action to recover the non-realisation, under charge of tax, interest etc pointed out by us, more so in those cases where it has accepted our contention.**

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 Principal 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 two Deputy Commissioners of Taxes (DCT) and two Assistant Commissioners of Taxes (ACT). One of the ACT, functions as the appellate authority. At the district level, the 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 etc.

The collection of tax, interest and penalty etc., in the State 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 and the MVAT Rules, 2005. Before 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, which have, since been repealed with the introduction of VAT. However, assessments under the MST Act and MFST Act are still being made. The STs are the Assessing Officers (AO) under the repealed acts. However, with the introduction of VAT, an audit team with the DCT as its head has been constituted to assess the dealers while the STs have been vested with the power to scrutinise returns furnished by the dealers.

2.2 Trend of receipts

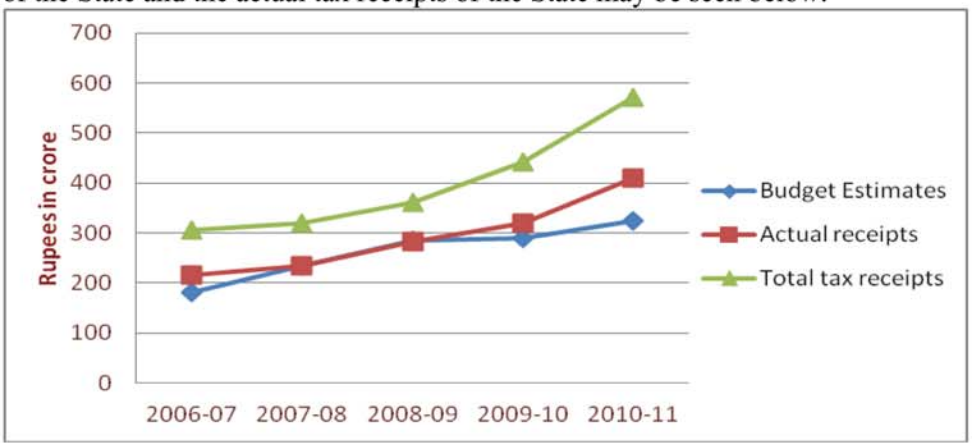
Actual receipts from VAT during the last five years 2006-07 to 2010-11 alongwith the total tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

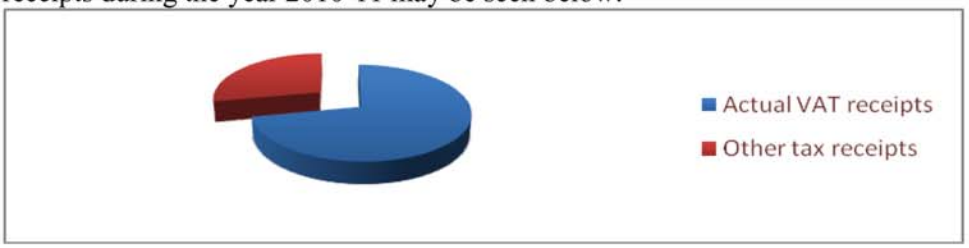
Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percent-age of variation	Total tax receipts of the State	Percentage of actual VAT receipts vis-à-vis total tax receipts
2006-07	180.00	215.82	35.82	20	304.74	70.82
2007-08	233.16	234.90	1.73	1	319.10	73.61
2008-09	285.42	281.83	(-) 3.59	1	369.44	76.29
2009-10	289.42	321.40	31.98	11	444.29	72.34
2010-11	324.16	409.88	85.72	26	571.45	71.73

Thus, the percentage of variation which was as high as 20 *per cent* in 2006-07 came down to the negligible level of one *per cent* during the years 2007-08 and 2008-09. However, due to increase in tax collection, the variation increased to 26 *per cent* during 2010-11.

A line graph showing the budget estimates of the State vis-à-vis the total receipts of the State and the actual tax receipts of the State may be seen below:



Also, a pie chart showing the position of VAT receipt vis-à-vis the other tax receipts during the year 2010-11 may be seen below:



2.3 Assessee profile

As per information furnished by the Department the number of the VAT assesses that were registered during 2010-11 was 6769. The breakup of these assesses based on their annual turnover is mentioned as under:

Number of VAT/sales tax assessee in 2010-11			
Upto ₹ 1 lakh	**Upto ₹ 5 lakh**	**Upto ₹ 10 lakh**	**Above ₹ 10 lakh**
3735	1989	482	563

A pie-chart showing the number of dealers registered in 2010-11 vis-à-vis the annual turnover may be seen below:



As would be seen from the above, a sizeable number of the dealers (55% of the total dealers) registered with the Taxation Department are small dealers i.e. having turnover less than ₹ 1 lakh.

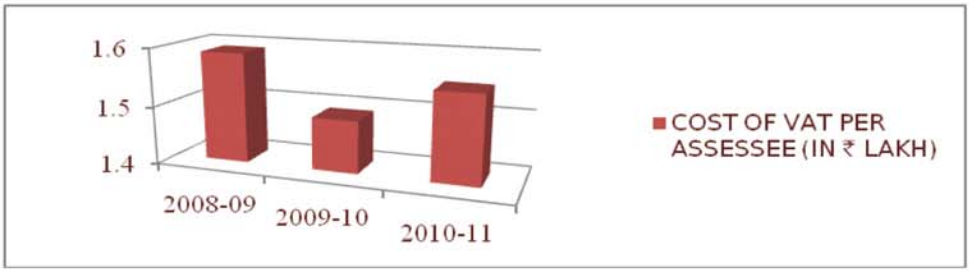
It is recommended that the Department may monitor constantly the turnover of the dealers in this segment, to ensure that the dealers who cross the thresh hold limit are brought under tax net immediately.

2.4 VAT per assessee

The VAT per assessee during the year and the preceding two years is shown below:

(₹ in crore)

Year	Total no of assessees	Total VAT collection	Cost of VAT per assessee
2008-09	17,089	271.07	0.016
2009-10	20,060	298.44	0.015
2010-11	21,019	324.77	0.016



It may be seen that the cost of VAT per assessee has gone up during 2010-11, in addition, number of assessees under VAT has also increased.

2.5 Position of arrears

As per information furnished by the Department, ₹ 9.47 crore was pending collection as on 31 March 2011. The breakup of the position of arrears during 2006-07 to 2010-11 is given in the following table:

(₹in crore)

Year	Opening balance of arrears	Additions during the year	Collection by the end of the year	Balance arrears
2006-07	22.13	4.22	4.84	21.51
2007-08	22.51	5.74	4.39	22.86
2008-09	22.86	24.73	5.76	41.88
2009-10	41.85	39.44	4.10	77.19
2010-11	77.19	7.06	74.78	9.47

It would be seen from the above that the collections during 2010-11 (₹ 74.78 crore) were the highest during the period from 2006-07 to 2010-11, the arrears of revenue which increased to ₹ 77.19 crore in 2009-10 had came down to ₹ 9.47

crore in 2010-11. This indicates improvement in the efforts of the Department in the collection of the arrears of revenue.

2.6 Cost of collection

The cost of collection (expenditure incurred on collection) of the Taxation Department during 2010-11 is shown below:

(₹ in crore)

Year	Actual revenue	Cost of collection	Percentage of expenditure on collection	All India average percentage during the preceding year
2008-09	281.83	4.46	1.58	0.83
2009-10	321.40	6.80	2.12	0.88
2010-11	409.88	8.71	2.13	0.96

The cost of collection of the Department has been steadily increasing. Besides, the cost of collection when compared to the all India average percentage during the preceding years is on the higher side. The Department should take steps to bring it down at least equal to the all India average percentage of cost of collection.

It is recommended that the Department may investigate the reasons for increase in the cost of collection of the Department and chalk out a plan for its reduction so that it is brought down at least near or equal to the all India average percentage of cost of collection.

2.7 Lack of internal controls in accounting of money receipt books

The internal controls of the Department were weak and even the accounting of receipt books was not done properly as mentioned in the following paragraphs:-

As per Rule 58 of the Meghalaya Financial Rules, all checkposts are required to issue receipts in TR Form No 4 while collecting money on behalf of the Government and maintain stock register of receipt books. The receipt shall be signed by a duly authorised officer and the amount collected should be entered in the cash book. The detailed particulars of books received from the issuing authority and utilised are required to be recorded in a register and authenticated by the officer-in-charge periodically.

- In Umkiang checkpost, we noticed that particulars of books received, issued, utilised and balance in stock were not regularly recorded in the stock register of receipt books. The entries were also not authenticated by the officer-in-charge of the checkpost periodically. We cross-verified the particulars of the issue register of receipt books of the COT, Meghalaya with the stock register of the checkpost and found that 790 receipt books (100 pages each) were issued to checkpost between 05 March 2008 and 15 March 2010. The checkpost authority however, entered only 780 books in their stock register. Thus 10 books bearing number 14,881 to 14,890 issued

by the COT on 07 December 2009 were not accounted for in the stock register of the checkpost. This is fraught with the risk of misappropriation.

- The case was reported to the ERTS Department, GOM in September 2010; reply was awaited (September 2011).

2.8 Impact of Audit Reports

2.8.1 Revenue Impact

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 2059.99 crore in 118 paragraphs. Of these, the Department/Government had accepted audit observations in 17 paragraphs involving ₹ 958.68 crore and had since recovered ₹ 167.42 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No	Amount	No	Amount	No	Amount
2006-07	21	20.68	6	1.67	Negligible	
2007-08	22	540.70	2	474.06		
2008-09	23	784.99	5	481.98	1	167.42
2009-10	29	498.23	4	0.97	-	-
2010-11	23	215.39	-	-	-	-
Total	**118**	**2059.99**	**17**	**958.68**	**1**	**167.42**

The above table reveals that except for the recovery of ₹ 167.42 crore received from Government of India on account of VAT compensation, the recovery in respect of paragraphs included in the Audit Reports Revenue Receipt has been nil. This is a matter of concern as with the passage of time the chances of recovery in these cases become remote.

We recommend that the Government may in the interest of revenue instruct the Department to revamp its revenue recovery mechanism and take concrete steps for recovery of the amounts at least in those cases which have been accepted by the Departments.

2.8.2 Amendments in the Acts/Rules/notification/orders issued by the Government at the instance of audit

Based on audit observations, the Government notified the following changes:

- **Database of risky dealers**:- The Department has entrusted the Deputy Commissioner of Taxes to frame the parameters for easy detection of dubious/risky dealers. The Superintendent of Taxes has already prepared a list of such dealers and the same will be completed and kept in electronic format.

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

2.8.3 Results of Audit

Test check of the records of 55 units relating to VAT revealed under-assessment of tax and other irregularities involving ₹ 271.54 crore in 133 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	**Cross verification of Declaration forms in inter-State Trade (a Performance Audit)**	1	176.32
2.	Short realisation of tax	10	1.89
3.	Evasion of tax	6	14.01
4.	Non-realisation of tax	8	1.45
5.	Other irregularities	108	77.87
Total		**133**	**271.54**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 8.51 crore in 54 cases. An amount of ₹ 2.55 crore was realised in 22 cases during the year 2010-11.

A Performance Audit on "Cross verification of Declaration Forms used in inter-State Trade" which points out certain system and compliance deficiencies in the process of acceptance of the Declaration and few illustrative cases having financial impact of ₹ 54.08 crore in terms of underassessment/short levy /non-levy of tax and other provisions of the Acts are included in the succeeding paragraphs.

2.9 Performance Audit of Cross verification of Declaration Forms used in inter-State Trade or commerce

Highlights

A Performance Audit of "Cross verification of Declaration forms in Inter-State Trade or commerce" and audit of Sales Tax Department revealed the following irregularities:

- We found that the Department had not prepared any Budget Estimates and did not maintain a database of concessions/exemptions given under CST.

(Paragraph 2.9.6; 2.9.7)

- We found that the online filing of application for declaration forms and their issue has not yet been introduced by the Department; the TINXYS site was not being used for verification purposes by the offices. Besides, only the declaration form 'C; were uploaded whereas 'F' form were not uploaded and forms were printed in excess of requirement and the Department was saddled with huge closing stock of 'C' and 'F' forms which was fraught with the risk of obsolete and damaged forms.

(Paragraph 2.9.9; 2.9.10)

- We found that in four ST field offices, 78 dealers submitted 2600 'C' forms after a delay ranging between 9 months and 40 months in violation of the CST Act. In STs, Nongpoh and Jowai, two dealers sold coal, iron and steel etc, valued at ₹ 2.57 crore in course of interstate trade to dealers of Assam and submitted the portion marked 'DUPLICATE' to the ST instead of the portion marked 'ORIGINAL' which was incorrectly accepted by the assessing officers.

(Paragraph 2.9.13; 2.9.14)

- We noticed in Shillong and Williamnagar that on reporting loss of four 'F' forms and closure of business by the dealer, the Department did not issue notices for declaring the forms as invalid/obsolete. We also found that though Taxation Department of Mizoram had notified 14 forms as obsolete the ST , Nongpoh Meghalaya accepted these forms incorrectly. The tax due under these forms was ₹ 19.55 lakh.

(Paragraph 2.9.16; 2.9.17)

- We found that dealers under ST, Nongpoh Meghalaya sold taxable goods valued at ₹ 44.19 crore having a tax effect of ₹ 1.83 crore during the period 2004-05 to 2008-09 on declaration forms which were not printed/ not issued by the commercial taxes Department of Manipur, Assam and West Bengal indicating that the forms were not genuine. Thus evasion of tax cannot be ruled out.

(Paragraph 2.9.18)

- The declaration forms furnished by three dealers and accepted by the ST, Nongpoh for sales valued at ₹47.35 lakh were found irregular on cross

verification, since the purchasing dealers in Assam were not found registered for the goods they had purchased. In absence of cross verification such irregularities are not being detected by the Department.

(Paragraph 2.9.19.1)

- We noticed that ST, Circle I, Shillong accepted 11 'F' forms in support of claim for exemption of tax and STs, Nongpoh and Jowai accepted 18 'C' forms from unregistered dealers of other states . The concession availed/exempted on these forms was ₹ 32.22 lakh which remained undetected for want of cross verification by the Department.

(Paragraph 2.9.19.3)

- We found during cross verification that sale of goods valued at ₹ 11.11 crore was made in excess of the purchases depicted against the declaration forms. This escapement of turnover resulted in non levy of tax of ₹ 66.57 lakh.

(Paragraph 2.9.20.1)

- We found that eleven dealers in five circles had concealed turnover of ₹ 1.91 crore and evaded tax of ₹ 23.88 lakh. Besides, penalty of ₹47.76 lakh is also leviable for willful concealment of purchases.

(Paragraph 2.9.21.3)

- We found that four dealers registered in ST, Nongpoh purchased goods valued at ₹ 62.38 lakh between 2006-07 and 2009-10 by utilising seven 'C' forms. However our Cross-verification revealed that there was variation in nature of commodity purchased and as such concessions allowed were incorrect.

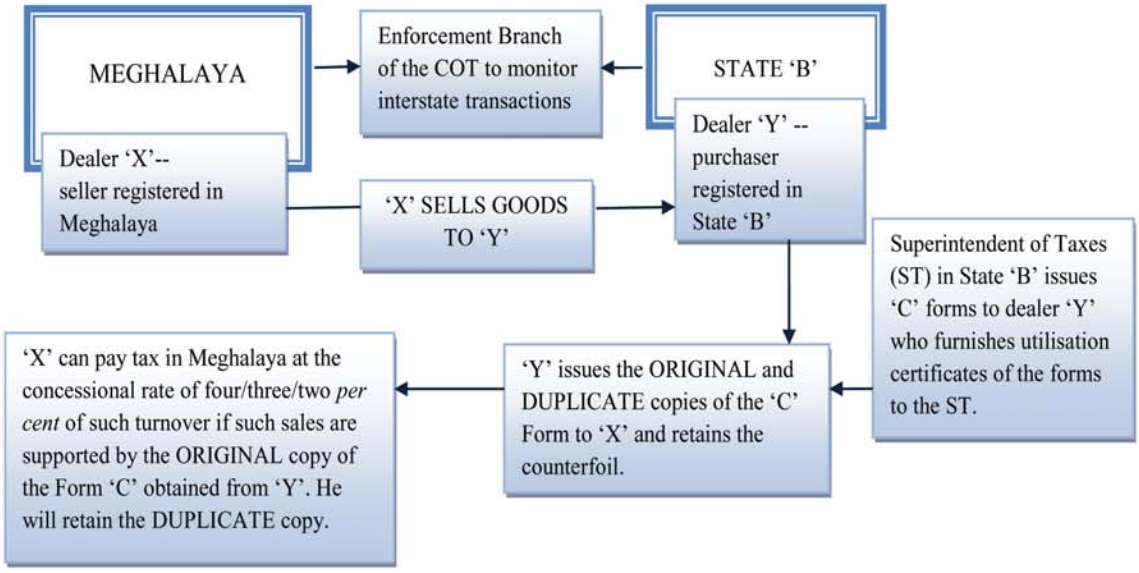
(Paragraph 2.9.21.5)

2.9.1 Introduction

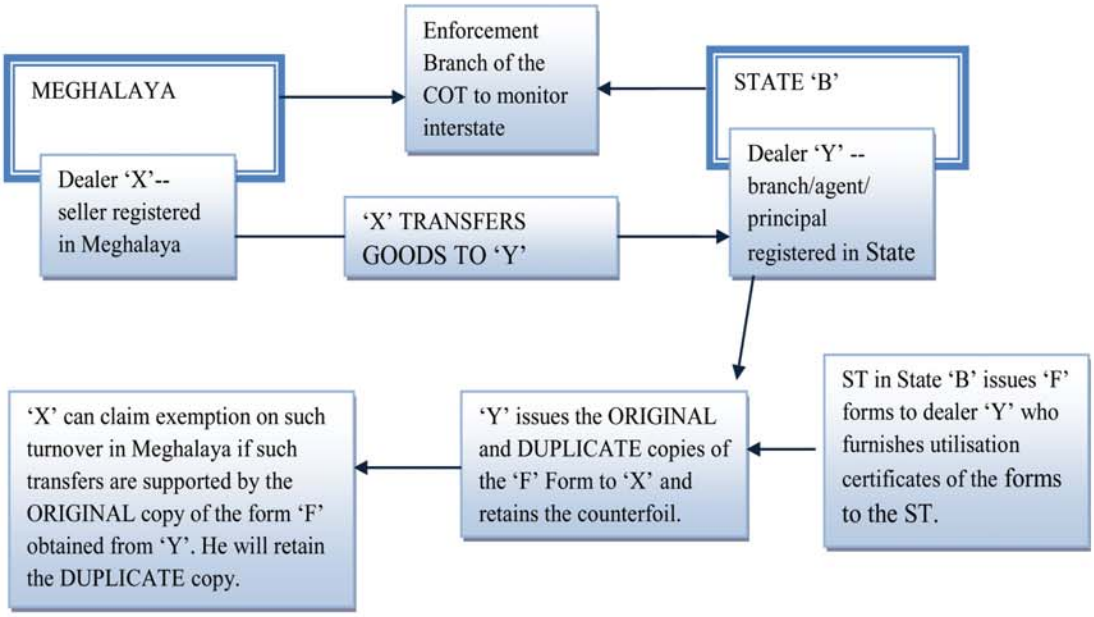
Interstate trade is regulated under the Central Sales Tax (CST) Act, 1956, the Central Sales Tax (Registration & Turnover) (CSTRT) Rules, 1957 and the Central Sales Tax (Meghalaya) (CSTM) Rules. The tax incentives in form of concessional rates of tax on goods are granted to dealers under the law in order to promote trade and commerce in the country.

Under the CST Act, registered dealers are eligible to certain concessions and exemptions of tax on interstate transactions subject to submission of specified declaration forms (Forms 'C' and 'F'). It is the responsibility of the State Taxation Departments to ensure proper accounting of the forms and to take adequate safeguards against their misutilisation since tax relief allowed on 'C and 'F' forms represents revenue foregone to the State exchequer.

Under the CST Act, every dealer who in the course of interstate trade, sells to a registered dealer, goods of the classes specified in the certificate of registration of the purchasing dealer shall be liable to pay tax at the concessional rate of four *per cent* upto 31 March 2007, three *per cent* upto 31 May 2008 and two *per cent* thereafter provided such sales are supported by a 'C' form. The steps involved in the process are illustrated below:



Under Section 6A of the CST (Amendment) Act, 1972 transfer of goods not by reason of sale by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempt from tax on production of a 'F' form duly filled in and signed by the principal officer of the other place of business or his agent or principal, as the case maybe, along with evidence of despatch of such goods. The steps involved in the process are as under:



Maintenance of accounts and use of 'C' and 'F' forms: In Meghalaya 'C' and 'F' forms are obtained by the COT from the State Government press and supplied to the STs for issue to registered dealers. The registered dealers issue these forms to selling dealers/branch/agent/principal in other States while purchasing/ receiving goods for purposes specified in their Registration Certificates (RC) in order to avail concession/ exemption from payment of tax. The dealers have to submit utilisation statements for the forms received and utilised by them to the STs who keeps an account of the same in the assessment records of the dealers. No fresh forms are to be issued to the dealer until utilisation statements of forms previously issued to him are submitted.

Tax Information Exchange System (TINXSYS):- TINXSYS is a centralised exchange of all interstate dealers registered across the various States and Union Territories, instituted by the Empowered Committee (EC) of State Finance Ministers as a repository of interstate transactions taking place among various States and Union Territories (UT). The website was designed to help the Taxation Departments of States and UT to effectively monitor interstate trade. It can also be used by any dealer to verify the counter party interstate dealer in any other State and by Taxation Department officials to verify 'C' and 'F' forms issued by other State Taxation Departments and submitted to them by the dealers in support of claim for concessions/exemptions. TINXSYS additionally provides Management Information System and Business Intelligence Reports to the Taxation Departments to monitor interstate trade movement and enables the EC to monitor the trends in interstate trade.

Receipt and issue of declaration Forms: - The receipt and issue of 'C' and 'F' forms are accounted for in stock registers of the ST field offices. When the forms are issued by the ST to the dealer, the latter's signature, as token of receipt, is to be obtained in the register. A registered dealer to whom 'C' and 'F' forms are

issued is required to maintain an account of such forms and to furnish an utilisation statement of the forms to the ST in the prescribed format.

Penalty for misuse of 'C' and 'F' forms:- Under Section 10 of the CST Act, if any person being a registered dealer, falsely represents when purchasing any class of goods that goods of such class are covered by his RC or not being a registered dealer, falsely represents when purchasing goods in the course of interstate trade that he is a registered dealer or after purchasing any goods for any of the specified purposes make use of the goods for any such purposes the assessing authority may impose upon him by way of penalty a sum not exceeding one and a-half times the tax which would have been levied under the CST Act. The penalty may be imposed and collected in the State in which the purchasing dealer is/should have been registered.

2.9.2 Organisational setup

The Commissioner of Taxes (COT), Government of Meghalaya is responsible for administration of the Act and Rules including printing, receipt and distribution of 'C' and 'F' forms amongst the Superintendent of Taxes (ST) field office. At headquarters, he is assisted by one Deputy Commissioner of Taxes (DCT), two Assistant Commissioners of Taxes (ACT) and two Superintendents of Taxes (STs) in the Enforcement Branch (EB). In addition, the COT has 14[1] ST field offices. The STs of the field offices directly receive the 'C' and 'F' forms from the COT. They are responsible for accounting of the forms received including registration and assessment of dealers and issue of forms to them. The STs of the EB are responsible for interstate investigation/cross-verification of transactions with other States.

The Principal 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.

2.9.3 Audit objectives

The Performance Audit aims to ascertain whether:

- There exists a fool proof system for custody and issue of the 'C' and 'F' forms.
- Exemptions/concessions of tax granted by the STs were supported by the original 'C' and 'F' forms.
- There is a system for ascertaining genuineness of the forms by cross verification so as to prevent evasion of tax.
- There is a system in place for uploading information in the TINXSYS website and the data available therein is utilised for verifying the correctness of the forms.

[1] STs, Shillong (Circle I to Circle VIII), Nongpoh, Jowai, Khliehriat, Tura, Williamnagar, Nongstoin.

➢ Appropriate steps are taken on receipt and detection of fake, invalid and defective[2] forms.

➢ The internal control system is adequate and effective so as to prevent leakage of revenue.

2.9.4 Scope of Audit and Methodology

The Performance Audit of declaration forms utilised in inter-state trade or commerce was carried out on all India basis. We collected particulars of 3,295 'C' forms and 242 'F' forms from nine ST field offices[3] in the State and sent the same to Principal Accountants General (PAsG)/Accountants General (AsG) of the concerned States for cross-verification of particulars with the assessment records of the purchasing dealers who had issued the forms as detailed below:

Form type	No. of forms	Value of goods	Amount of exemption/ concession availed	No. of registered dealers involved	No. of ST field offices
'C'	3295	₹ 560.40 crore	₹ 46.76 crore	79	9
'F'	242	₹ 217.09 crore	₹ 18.26 crore	11	5

Of the above, 1523 verification reports were received back from other States. These included 1373 'C' forms and '150' F forms.

Similarly, we received 126 'C' forms and 30 'F' forms from other PAsG/AsG for cross-verification of the particulars therein with respect to the utilisation statements furnished by the concerned purchasing dealers of Meghalaya as detailed below:

Form type	No. of forms	Value of goods	Amount of exemption/ concession availed	No. of registered dealers involved	No. of ST field offices
'C'	126	₹ 12.72 crore	₹ 4.10 crore	78	9
'F'	30	₹ 3.88 crore	₹ 0.54 crore	5	3

Of these 156 declaration forms, we verified 141 including 22 'F' forms.

The Performance Audit covering nine[4] ST field offices was carried out between November 2010 and January 2011 and included all assessments completed by the STs between 2007-08 and 2009-10 where exemptions/concessions were granted under the CST Act.

The position of assessments completed under the CST Act between 2007-08 and 2009-10 was as under:

Year	No. of registered dealers involved	No. of assessments completed
2007-08	160	615
2008-09	142	596
2009-10	136	335

[2] Without proper or insufficient details.
[3] STs, Nongpoh, Jowai, Tura, Circles-I, II, III, IV, VI, VIII (Shillong).
[4] STs, Nongpoh, Jowai, Tura, Circles-I, II, III, IV, VI, VIII (Shillong).

2.9.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Excise, Registration, Taxation and Stamps (ERTS) Department in providing the necessary information and records to audit. We held an entry conference in November 2010 in which the objectives, scope and methodology of audit were explained. The conference was attended by the Deputy Secretary to the Government of Meghalaya, Finance Department, the COT and the DCT. The review was forwarded to the Department and to the Government in August 2011. The findings of the review were discussed in the exit conference held in November 2011. The replies received during the exit conference and at other point of time have been appropriately incorporated in the relevant paragraphs.

System deficiencies

2.9.6 Absence of a separate Budget Estimate for receipts under CST Act

We noticed that no separate budget estimates are prepared for collection of revenue under the CST Act. As a result of which, the Department had no mechanism to forecast/estimate CST revenue collection. This was not conducive to sound financial management and was not in consonance with sound budgeting practices. A table showing the year-wise collection under CST is given below:

Year	CST revenue	Tax revenue of the State	Total revenue of the State	Percentage of CST revenue as against		
				Tax revenue	Total revenue	(+) increase / (-) decrease over previous year
2006-07	28.04	304.74	489.11	9.20	5.73	
2007-08	18.01	319.10	518.45	5.64	3.47	(-) 37.77
2008-09	10.76	369.44	594.75	2.91	1.81	(-) 40.26
2009-10	22.96	444.29	719.38	5.17	3.19	(+) 113.38
2010-11	85.11	575.45	876.98	14.79	9.70	(+) 270.69

(Source: Finance accounts, Government of Meghalaya)

It will be seen from the above that CST forms a sizeable amount of the Government revenue. This is mainly due to the fact that the State is a major exporter of minerals mainly coal and lime stone. As can be seen from the above, the revenue collection under the CST Act has shown steep falls and rises during the last four years. The reasons despite being called for (September 2011) were not furnished.

We recommend that the Government may consider issuing directions to the Department for framing budget estimates in respect of revenue realisable from CST and watch collections against the budget estimates.

2.9.7 Absence of database of exemptions/concessions availed

Under the CST Act, concessions and exemptions are allowed to the dealer on sale of goods in course of interstate trade for which the selling dealer has to furnish 'C' and 'F' forms as the case may be.

We noticed that the Department, both at the Directorate level as well as at the field offices level did not maintain a database of concessions/exemptions given under CST. Such a database is essential so that the Department can monitor the abuse or misuse, if any, of the concessions/exemptions allowed. As a result, the Department was not in a position to quantify the amount of revenue foregone due to concessions/exemptions nor could it monitor or detect the abuse/ misuse of 'C' and 'F' forms which have been brought out in the ensuing paragraphs.

We recommend that a centralised database maybe created so that the Department is in a position to quantify the amount of revenue foregone due to concessions/exemptions and monitor the abuse or misuse of the provision relating to concessions/exemptions.

2.9.8 Non-issue of notification for defective declaration forms

CST Rules provide that the Commissioner may, by notification, declare forms of particular series as obsolete and invalid with effect from such date as may be specified in the notification. Out of the nine selected ST field offices, we noticed in two[5] ST field offices that 111[6] forms were damaged and not fit for use. The STs did not bring this to the notice of COT for issue of notification. We apprehend that the forms could be misused by the dealers in purchase of goods.

2.9.9 Non-utilisation of Tax Information Exchange System for uploading of declaration forms

TINXSYS *inter-alia* provides Management Information System and Business Intelligence Reports to the Taxation Departments to monitor interstate trade movement and enables the EC to monitor the trends in interstate trade.

We found that the receipt and issue of 'C' and 'F' forms were accounted for in stock registers of the ST field offices manually and online filing of application for declaration forms and their issue has not yet been introduced by the Department. Thus an essential feature of the system which could serve as a monitoring control for watching the declaration forms remained un-utilised.

2.9.9.1 Partial uploading of data in TINXSYS

The Finance Ministry, GOI, had instituted the TINXSYS website and asked the States to make it operational and usable for uploading data relating to 'C' and 'F' forms issued and for verification of forms on an All India Basis.

We noticed that the Department had uploaded only 'C' Forms in the TINXSYS website and no 'F' Forms were uploaded in the system. The position of 'C' and 'F' forms issued and uploaded (furnished by the COT and ST field offices) was as follows:

[5] STs, Tura and Williamnagar
[6] Seven in ST, Williamnagar and 104 in ST, Tura

Year	No. of forms issued		No. of forms uploaded		Percentage	
	'C'	'F'	'C'	'F'	'C'	'F'
2007-08	25736	1553	22645	0	88	0
2008-09	28056	1812	25001	0	85	0
2009-10	29534	1572	17730	0	63	0

From above, we noticed that while the percentage of 'C' forms uploaded in TINXSYS initially was 88 *per cent* in 2007-08, it slid down to 85 *per cent* in 2008-09 and then further down to 63 *per cent* in 2009-10. We further found that out of 141 forms (119 'C' forms and 22 'F' forms) received from other States, not a single of these forms were uploaded in the TINXSYS. Thus, an essential feature of the system which could serve as a monitoring control for watching the declaration forms remained unutilised.

We recommend that the TINXSYS website be updated for all declaration forms issued under the Act and be utilised by the Department to improve efficiency, efficacy and transparency.

COMPLIANCE DEFICIENCIES

2.9.10 Deficiencies noticed in printing and issue of 'C' and 'F' forms

As per General Financial Rules, 'C' and 'F' forms printed by the COT from Government Press are to be kept in the safe custody of a responsible officer and issued to the ST field offices as per indents received from the concerned STs after obtaining written acknowledgements.

We noticed that against 875 books issued by the COT, the ST field offices records showed receipt of 886.55 books, resulting in a discrepancy of 11.55 books. The discrepancy noticed needs immediate reconciliation, the position of 'C' and 'F' forms was as under:

('C' Forms books-----1 Book = 100 sheets)

Year	Opening balance	Books issued	Closing balance	Books received by ST field offices	Difference
2007-08	7850	350	7500	376.28	(-) 26.28
2008-09	7500	350	7150	326.76	(+) 23.24
2009-10	7150	175	6975	183.51	(-) 31.75
Total no issued		**875**		**886.55**	**(-) 11.55**

('F' Forms books-----1 Book = 100 sheets)

Year	Opening balance	Books issued	Closing stock
2007-08	8750	25	8725
2008-09	8725	25	8700
2009-10	8700	--	8700

(Source: Information furnished by COT and ST field offices)

From the above two tables we noticed that average consumption of 'C' and 'F' forms was 300 and 25 books respectively. Based on the above findings, the stock would last for another 24 and 348 years respectively. Thus printing of the forms in excess of the requirement is fraught with the risk of them becoming obsolete/ damaged/misused.

A physical verification of forms should also be carried out at least once in every year and entrusted to a responsible officer who is independent of the authority in charge of the forms.

We noticed that the physical verification of the forms was also never carried out either in the office of the COT nor at the ST field offices during the period under review.

2.9.11 Non-revision of prices charged for 'C' and 'F' forms

Under Rule 8(1) of CSTM Rules, a registered dealer who wishes to purchase goods at concessional rate of tax in course of interstate trade shall obtain 'C' and 'F' forms on payment of five rupees[7] per sheet from the ST under whose jurisdiction he falls.

We however, noticed that the price charged for the forms was not uniform throughout the State. The prices charged for each sheet of 'C' and 'F' forms by the ST field offices in six districts of the State were as under:

Name of the district[8]	Name of the ST field office	Rate fixed by COT (in `)	Rate at which forms were issued	
			C-form (in `)	F-form (in `)
East Khasi Hills	Shillong (all circles)	5	5	5
Jaintia Hills	Jowai	5	8	8
	Khliehriat	5	10	10
Ri-bhoi	Nongpoh	5	5	5
East Garo Hills	Williamnagar	5	25	25
West Khasi Hills	Nongstoin	5	5	5
West Garo Hills	Tura	5	25	50

As can be seen from the above, the sale prices charged from the dealers for supply of 'C' and 'F' forms ranged from ₹ 5 to ₹ 25 and ₹ 5 to ₹ 50 respectively. Even in the same district (Jaintia Hills), the prices charged varied. The reasons for variation were not on records.

It is recommended that the Department may consider revising the rate of sale price for sale of 'C' and 'F' forms, as the rate fixed by the Department has not been revised since the last two decades.

2.9.12 Lack of action in respect of cases reported in earlier audit Reports

Mention was made by us in the Comptroller and Auditor General of India's Audit Reports - Government of Meghalaya for the period from 2005-2006 to 2009-10 about the evasion of tax by fraudulent utilisation of fake forms by the dealers. The cases mentioned in the ARs for the years are listed in the table below:

[7] The rate was fixed on 30.10.1991.
[8] In South Garo Hills, there is no ST field office.

(₹ in crore)

AR for the year ended	Para No.	Value of the goods shown in the forms	Tax evaded	Penalty leviable
31.3.2006	6.26	37.38	1.50	2.25
31.3.2007	6.23	59.81	2.60	3.99
31.3.2008	6.22	30.20	1.21	2.20
31.3.2009	2.8	4.80	0.19	0.38
31.3.2010	2.31	96.36	3.85	7.70
Total		**228.55**	**9.41**	**16.52**

Though the above reports were tabled before the State Legislature, we find that no concrete steps were taken by the Department to prevent fraudulent utilisation of fake declaration forms.

The loss due to non-detection of fake forms can also be attributed to non-use of the TINXSYS facility coupled with large scale acceptance of incomplete forms by the STs thereby paving the way for misuse of exemptions/concessions by dealers.

2.9.13 Non-compliance of instructions relating to issue of 'C' and 'F' forms

As per the directions issued by the COT on 02 December 1996 to all the STs, new declaration forms should be issued only after the utilisation statement in the prescribed format was submitted to the ST by the indenting dealers.

Test check of records of the nine[9] selected ST field offices revealed that the utilisation statements were not submitted by the registered dealers of Tura and Jowai and were partially furnished by the dealers of Shillong and Nongpoh. We did not find any record or instance where the STs insisted on submission of the same before issue of fresh forms. Issue of the declaration forms without submission of utilisation statement was incorrect and indicated that the STs were not following the departmental instructions to prevent evasion of tax, concealment of turnover by misutilisation of forms, etc. This also indicated lack of monitoring by the COT to ensure compliance of its instruction.

2.9.13.1 Incorrect acceptance of belatedly submitted declaration forms

As per Rule 12(1) of the CSTRT Rules, 2005 (as amended on 16 September 2005) 'C' or 'F' forms shall be furnished to the prescribed authority within three months after the end of the period to which the transaction relates. The prescribed authority may, however, allow the extension of time limit if the dealer was prevented by sufficient cause from furnishing the forms.

We noticed during test check of 'C' forms that in four[10] ST field offices, 78 dealers sold goods valued at ₹ 291.04 crore between 2006-07 and 2009-10 and submitted 2600 'C' forms belatedly. The period of delay in submission of forms ranged between 9 months and 40 months. We found that in most of the cases the delay arose as the dealers submitted the forms only at the time of finalising the

[9] STs, Nongpoh, Jowai, Tura, Circles-I, II, III, IV, VI, VIII (Shillong).
[10] STs, Shillong (Circle III and VIII), Nongpoh, Jowai

assessment which was well beyond the period of three months. The ST office-wise position of delayed submission of 'C' forms by the 78 dealers is as shown in the following table.

(₹in crore)

Name of ST field office	No. of dealers involved	No. of 'C' forms used	Value of goods	Amount of concession availed
Nongpoh	74	2245	234.81	29.23
Jowai	01	72	18.93	1.45
Shillong Circle-VIII	01	134	4.50	0.17
Shillong Circle-III	02	149	32.80	3.76
Total	**78**	**2600**	**291.04**	**34.61**

Similarly, in two[11] ST field offices out of the selected nine ST field offices, seven dealers made interstate stock transfer of goods valued at ₹ 192.85 crore to their agents/principals between 2006-07 and 2009-10 by utilising 219 'F' forms. In these cases also, the dealers submitted the 'F' forms belatedly ranging between 9 months and 40 months. The ST office-wise position of delayed submission of 'F' forms by the dealers is as shown below:

(₹in crore)

Name of ST field office	No. of dealers involved	No. of 'F' forms used	Value of goods	Amount of exemption availed
Nongpoh	6	187	111.12	12.98
Jowai	1	32	81.73	10.22
Total	**7**	**219**	**192.85**	**23.20**

In the above cases, the STs accepted the 'C' and 'F' forms beyond the prescribed period of three months without any recorded reasons; this was in contravention to the Rules. The delayed submission of forms is fraught with the risk of evasion and escaping of taxable turnover. Besides, the flaws/irregularities/incomplete forms/forging of forms cannot be timely detected and belated rectification results in loss of revenue particularly in case of closure of businesses by the dealers.

It is recommended that the Department may in the interest of revenue issue necessary instructions for timely submission of the declaration forms and ensure that exemption/concession of tax is not be allowed on the forms submitted after the prescribed period of three months without any recorded reasons.

2.9.14 Incorrect acceptance of 'DUPLICATE' declaration forms

In STs, Nongpoh and Jowai, we noticed that two dealers[12] sold coal, iron and steel etc, valued at ₹ 2.57 crore in course of interstate trade to dealers of Assam and furnished seven 'C' forms. The STs assessed the dealers at concessional rate. Our scrutiny however, revealed that the dealers submitted the portion of the form marked 'DUPLICATE' to the ST instead of the portion marked 'ORIGINAL'. Such irregular acceptance of 'DUPLICATE' portion of the form was not correct

[11] STs, Nongpoh and Jowai
[12] JK Corporation, Greystone Ispat Ltd.

and verification of original 'C' form needs to be done before the concessional rate of tax amounting to ₹ 6.28 lakh[13] is allowed on these forms.

2.9.15 Incorrect acceptance of incomplete 'C' and 'F' forms

Under Section 8(4) (1) (a) read with Section 8(1) of the CST Act, the selling dealer shall not be entitled to avail tax at concessional rate unless he furnishes 'C'/'F' form duly filled and signed by the purchasing dealer/agent containing the prescribed[14] particulars.

Our scrutiny revealed that though there were a number of discrepancies in the declaration forms, but the assessing authorities incorrectly allowed concessional rate/exemption from tax.

Analysis of 850 'C' forms (25 *per cent)* out of 3,537 'C' forms[15], randomly selected revealed that the columns indicating '*date from which registration is valid*', '*purchase order no. and date*', '*challan no. and date*' and '*name of goods*' were not filled up. In 22 'C' forms '*seal of the issuing authority*' was not affixed while in 35 'C' forms '*RC no. of the purchasing dealer*' was not mentioned.

Similarly we randomly selected 121 'F' forms out of 242 'F' forms (50 *per cent)* and found that in none of the selected 121 forms were the '*date of issue*', '*date from which registration is valid*', '*date on which delivery was taken by the transferee*' and '*RC no. of transferee*' filled up.

Though the above forms were incomplete and were thus liable to be rejected at the time of assessment, the STs accepted all these incomplete forms and granted exemption/concession to dealers on the goods valued at ₹ 777.50 crore. Thus concession/exemption from payment of tax of ₹ 53.96 crore was allowed without any verification.

The fact that improperly filled up forms were unreservedly accepted by the STs, indicates prevalence of slackness in the Department. This extended an open invitation to dealers to abuse/misuse 'C'/'F' forms and unscrupulously avail concessions/exemptions.

[13] 1.42 crore @ 2% = 2.83 lakh
1.15 crore @ 3% = 3.45 lakh
2.57 crore 6.28 lakh

[14] **In case of 'C' form:** Date from which registration is valid, seal of the issuing authority, purpose of goods purchased, registration no. and date, name of the purchasing dealer along with registration no., signature of the purchasing dealer etc.

In case of 'F' form: Date from which registration is valid, seal of the issuing authority, description and quantity of goods, registration no. and date of transferor/transferee, name of the transferee and transferor along with registration no, signature of the transferee, date of delivery of goods etc.

[15] Refer para 2.9.4

2.9.16 Non-issue of notification in respect of lost and unused declaration forms

2.9.16.1 Under the CSTM Rules, if a form received by the dealer is reported lost, destroyed or stolen, the dealer shall report the fact to the ST and the COT shall issue public notice of the loss, destruction or theft.

In ST, Circle III, Shillong we noticed that a dealer reported loss of four 'F' forms in July 2009 to the ST. But we found that the matter was not reported to COT by the ST. Similarly in Jowai, one 'C' form was reported lost. The ST reported the matter to the COT but the COT did not take action. Consequently, notices for declaring the forms as invalid/obsolete were not issued by the Department

2.9.16.2 Under the CSTM Rules, any unused form remaining in stock with a dealer on the date of cancellation of his RC shall be surrendered to the ST within 15 days of such cancellation. If the dealer fails to surrender unused forms at the time of cancellation of his RC, the COT shall issue notification in the official gazette (including the official gazettes of all other States) to make the form obsolete and invalid to prevent misuse of such forms.

In ST, Williamnagar, RC of a dealer was cancelled (December 2009) but the dealer did not surrender three unused forms. The ST neither asked the dealer to return the forms nor did it report the matter to the COT for making the forms invalid and obsolete so as to prevent their misuse.

In all the above cases, the misuse of the said forms cannot be ruled out.

2.9.17 Loss of revenue due to acceptance of obsolete forms

To prevent evasion of tax through use of obsolete/invalid declaration forms by dealers of other States, the COT, shall, on receipt of the copy of the notification issued by the other States declaring such forms as obsolete/invalid, forward the notification to all the concerned STs to enable them to cross-check the forms submitted by dealers during assessments.

We noticed that two[16] dealers in ST, Nongpoh and one[17] in ST, Jowai sold taxable goods valued at ₹ 2.02 crore for the period from 1998-99 to 2006-07 in course of inter-state trade to Mizoram and furnished 14 'C' forms. The STs accepted between 2007-08 and 2008-09, the forms and assessed the dealers at concessional rate accordingly.

Cross-verification by us with the Taxation Department of Mizoram revealed that all the forms had been declared obsolete by the COT, Mizoram and necessary notification in this respect was issued on 13 October 1999 and 29 January 2003, copies of which were sent to all the COTs of other States. The COT, Meghalaya however, did not forward the notification to his STs. As such, the STs could not

[16] Ambika Oil (North East) Pvt Ltd, Jenson and Nicholson
[17] Meghalaya Cement Ltd.

detect the obsolete and invalid forms at the time of assessment resulting in under assessment of tax of ₹ 19.55 lakh[18].

2.9.18 Acceptance of the declaration forms not issued by the commercial tax authorities

To prevent evasion of tax through fake forms, we found that the Department had not installed a system to cross-verify the forms furnished by the purchasing dealers/agents of other States. Absence of this system resulted in grant of concessional rate of tax on invalid obsolete forms.

2.9.18.1 We noticed that three dealers[19] in ST, Nongpoh (five forms) and two[20] dealers in ST, Jowai (two forms) sold taxable goods[21] valued at ₹ 2.52 crore during 2004-05 to 2008-09 in course of interstate trade to dealers of Manipur and Assam and furnished 'C' forms to claim concessional rate of tax. The STs accepted (2008-09) the forms and assessed the dealers accordingly. However cross-verification of 'C' forms with the commercial taxes Departments of the concerned States revealed that these declaration forms were not printed at all by them and they had not issued these forms. As such, it was clear that the forms were not genuine.

The assessing authorities, neither at the time of, nor at any time before finalising the assessments, had made any inquiry to ascertain that the particulars contained in the declarations furnished by the dealers are true Thus, the possibility of utilisation of fake forms, by the dealers for evasion of tax of ₹ 21.96 lakh[22]cannot be ruled out.

2.9.18.2 We noticed in STs, Jowai and Tura that three dealers[23] despatched coal valued at ₹ 31.75 crore by way of stock transfer to dealers of West Bengal and furnished 11 'F' forms to claim exemption from payment of tax. The STs accepted between 2007-08 and 2008-09 the forms and exempted the dealers accordingly. Cross-verification by us with the Taxation Department of West Bengal (WB), however, revealed that the said 'F' forms were issued to other dealers in WB. Thus, forms submitted in support of the claim by the dealers in

[18] ₹ 1.26 crore @ 8% = ₹ 10.08 lakh
₹ 0.75 crore @ 12.5% = ₹ 9.38 lakh
₹ 0.01 crore @ 8.5 % = ₹ 0.09 lakh
₹ 2.02 crore ₹ 19.55 lakh

[19] Vansha Fragrances, Meghalaya Mineral Products, Adhunik Meghalaya Steel

[20] Narlong Coal Traders, Edita Mary Sungoh.

[21] Soya nuggets, lime product, coal, ferro silicon.

[22] ₹ 146.89 lakh @ 11.5% = ₹ 16.89 lakh
₹ 4.46 lakh @ 9% = ₹ 0.40 lakh
₹ 3.71 lakh @ 6% = ₹ 0.22 lakh
₹ 55.71 lakh @ 5% = ₹ 2.86 lakh
₹ 39.78 lakh @ 4 % = ₹ 1.59 lakh
₹ 250.55 lakh ₹ 21.96 lakh

[23] Eastern Coal, National Enterprise in ST, Jowai. Megha Overseas in ST, Tura

Meghalaya were not genuine and resulted in non realisation of tax to the extent of ₹ 1.27 crore[24].

2.9.18.3 We further noticed that three dealers in ST, Shillong, Circle-III, two dealers in ST, Jowai and 15 dealers in ST, Nongpoh sold goods valued at ₹ 9.92 crore during 2004-05 to 2009-10 to dealers of Assam and West Bengal and furnished 28 'C' forms in support of their claim. The STs accepted the forms and assessed the dealers at concessional rate. On cross-verification of the forms with the Taxation Departments of the two States, we noticed that these were not issued to the purchasing dealers of the respective States. Acceptance of these forms in support of the claim by STs without any cross verification was irregular and led to evasion of tax of ₹ 34.09 lakh[25].

2.9.19 Accepting forms from unregistered dealers of other States

Under Section 7 of the CST Act, no dealer shall carry on business unless he is registered and possesses a certificate of registration. Further, under section 8(4)(C) of the Act, a registered dealer shall obtain 'C' and 'F' forms from the prescribed authority where he is registered. Under Section 10A of the CST Act, if a dealer furnishes a false declaration in support of his purchase, he is liable to pay penalty by way of composition of offence, a sum not exceeding one and half times the amount of tax.

2.9.19.1 Incorrect acceptance of incomplete 'C' forms from dealers not registered for the goods for which forms were issued

Three dealers in ST, Nongpoh sold goods valued at ₹ 47.35 lakh in course of interstate trade to two dealers in Assam and furnished declaration forms in support of their claims. Our cross-verification with the Taxation Department of Assam revealed that the dealers of Assam were not registered for the goods they had purchased. This could not be detected as nature of goods sold was not mentioned in the 'C' forms produced in support of their claim. This is evident from the following table:

Name of the dealer	C-form No	Item sold by Meghalaya dealer	Value (₹ in lakh)	Item declared by purchasing dealers in Assam
M/S Meghalaya Mineral Products	AS 06501395	Limestone	19.22	Bar and Rod
M/S Byrnihat Wood Products	AS 060597954	Sawn timber	27.76	Plywood
M/S Byrnihat Wood Products	AS 0597956	Sawn timber	0.37	Plywood
Total			**47.35**	

The above facts indicate that accepting of incomplete 'C' forms is fraught with the risk of fraudulent claims and may lead to loss of Government revenue.

[24] ₹ 31.75 crore @ 4% = ₹ 1.27 crore
[25] ₹ 8.42 crore @ 2% = ₹ 16.84 lakh
₹ 1.50 crore @ 11.5% = ₹ 17.25 lakh
₹ 34.09 lakh

2.9.19.2 *Incorrect acceptance of 'C' forms received from dealers of other States who had closed down their businesses*

Three dealers[26] of Meghalaya sold taxable goods valued at ₹ 8.17 crore to dealers of Jammu and Kashmir, Mizoram and Arunachal Pradesh during 2005-06 to 2009-10 and produced five 'C' forms. The ST accepted the forms and assessed the dealers at concessional rate. Cross-verification of the forms however, revealed that the purchasing dealers of other States had already closed down their business and the RCs of the dealers were cancelled at the time of purchase of goods but those dealers had not surrendered the forms at the time of cancellation. Thus, submission of the invalid forms led to a tax evasion of ₹ 20.22 lakh[27] which remained undetected by the Department at the time of finalising the assessments due to absence of system of cross verification of the declaration forms.

2.9.19.3 *Incorrect exemption/concessions availed of on forms from unregistered dealers of other States*

We noticed in ST, Circle I, Shillong that a dealer[28] in Meghalaya made stock transfers of steel wool valued at ₹ 2.39 crore to his agent in Mizoram for the period from 2005-05 to 2006-07 and furnished 11 'F' forms in support of claim for exemption of tax. The ST accepted the forms as valid and assessed the dealer accordingly. On cross-verification, we noticed that the dealer in Mizoram was neither registered nor were the 'F' forms issued to him. As such, the acceptance of the 'F' forms by the Meghalaya registered dealer was not correct and the dealer was liable to pay tax of ₹ 29.88 lakh[29].

Similarly we noticed that three[30] dealers in ST, Nongpoh and one[31] in ST, Jowai sold taxable goods to dealers of Mizoram and Arunachal Pradesh valued at ₹ 3.70 crore during 2006-07 to 2008-09 and furnished 18 'C' forms. The STs accepted the forms as valid and assessed the dealers at concessional rate. Cross-verification of forms, however, revealed that the forms were not issued to the dealers and they were not registered with the commercial tax Departments of those States. Thus, the unregistered dealers procured forms and furnished the same to the registered dealers of Meghalaya who on the basis of these forms availed tax concessions amounting to ₹ 32.22 lakh[32]. This irregularity escaped the notice of the Assessing Authorities due to the absence of system of cross verifications.

[26] Pawan Casting (Megh) Pvt. Ltd., KM Coal Agency, Meghalaya Cement Ltd.
[27] ₹ 7.51 crore @ 2% = ₹ 15.03 lakh
₹ 6.61 lakh @ 3% = ₹ 0.20 lakh
₹ 58.75 lakh @ 8.5% = ₹ 4.99 lakh
₹ 8.17 crore ₹ 20.22 lakh
[28] P.K. Enterprise.
[29] ₹ 2.39 crore @ 12.5% = 29.88 lakh
[30] North East Power Line, Ambika Oils (North East) Ltd., Jenson and Nicholson
[31] Monak Sophdang
[32] ₹ 1.93 crore @ 11.5% = ₹ 22.20 lakh
₹ 1.08 crore @ 8% = ₹ 8.64 crore
₹ 0.69 crore @ 2% = ₹ 1.38 lakh
₹ 3.70 crore ₹ 32.22 lakh

2.9.20 Furnishing of incorrect sales turnover

Determination of actual turnover is an essential process for correctly levying the tax. Sales not supported by declaration forms are liable to higher rate of tax.

2.9.20.1 Inflation of sales turnover by selling dealers of the State

We found that nineteen dealers registered in STs, Nongpoh, Jowai and Shillong sold taxable goods (timber, electrical goods etc;) valued at ₹ 20.78 crore during 2004-05 to 2008-09 in course of interstate trade to dealers of Mizoram, Manipur, Assam, Gujarat and furnished 60 'C' forms. The STs accepted (March 2007 and March 2010) the forms without any verification either through TINXSYS or through correspondence. We found during cross verification of the records of the respective Commercial Taxes Departments of the concerned States that the dealers of these states had shown inter-state purchase of goods valued at ₹ 9.67 crore only in their accounts against these forms. Thus, sale of goods valued at ₹ 11.11 crore was made in excess of the purchase shown against the declaration forms. The escaping of excess turnover of ₹ 11.11 crore with tax effect of ₹ 66.57 lakh[33] needs investigation. Further, in case of default, penalty of ₹ 1.33 crore[34] was also leviable.

2.9.20.2 Suppression of sales turnover by selling dealers of the State

We also found that four dealers registered in ST, Nongpoh sold goods (timber, electrical goods, soft drinks etc) valued at ₹ 2.41 crore to dealers of Assam and furnished five 'C' forms. The turnover disclosed in the forms was accepted by the ST and the dealers were assessed accordingly. Our cross-verification of the 'C' forms with books of accounts of the purchasing dealers of other States revealed that the dealers had shown interstate purchase of goods valued at ₹ 2.85 crore against these forms. Thus, the selling dealers supressed sales turnover of ₹ 44.31 lakh having a tax effect of ₹ 5.54 lakh[35].

2.9.21 Discrepancies noticed in the transactions of the purchasing dealers of the State

During the course of all-India cross-verification of 'C' and 'F' forms, we also verified 156 forms pertaining to purchasing dealers registered with the nine selected ST field offices of the state. These forms were issued by the dealers of other States/UTs and were verified by us. The results are set out in the following paragraphs.

[33] ₹ 5.83 crore @ 1% = ₹ 5.83 lakh
₹ 5.28 crore @ 11.5% = ₹ 60.74 lakh
₹ 11.11 crore ₹ 66.57 lakh

[34] Penalty ₹ 66.57 lakh x 2 = ₹ 1.33 crore

[35] ₹ 44.31 lakh @ 12.5% = ₹ 5.54 lakh

2.9.21.1 Incorrect grant of concessional rate of tax on Goods not covered in the RC of the dealers

Under Section 7(4) of the CST Act, RC can be amended when the registered dealer files application for inclusion of additional items in the RC to the registering authority. As per Section 10(C) of the Act *ibid*, if any registered dealer falsely represents when purchasing any class of goods that goods of such class are covered by his RC, he is liable to pay penalty of a sum not exceeding one and half times the tax which would have been levied under Section 8(2) of the Act. Every registered dealer is required to submit utilisation certificates in respect of the 'C' forms supplied to them showing the value and the kind of goods purchased by them.

We noticed that 21 dealers in STs, Shillong, Jowai, Nongpoh and Tura, imported taxable goods (motor vehicles, building materials etc.) valued at ₹ 7.47 crore during 2005-06 to 2009-10 by utilising 194 'C' forms. On cross-verification of the utilisation statements of the 'C' forms furnished by the dealers, we noticed that the goods purchased were not included in the RCs of the purchasing dealers of the State. The concessional rate of tax was not applicable in these cases. This resulted in less realisation of tax ₹ 52.07 lakh[36]. Besides, penalty not exceeding ₹ 78.11 lakh[37] was also leviable. The misutilisation of 'C' forms by the dealers was made possible since furnishing of utilisation statements was not insisted upon by the STs.

2.9.21.2 Evasion of tax by misutilisation of declaration forms in purchasing cement

We found during test check of records of the ST, Circle-I, Shillong that a dealer 'A'[38] was registered for sale and purchase of vegetables, fruits, onion, tea leaves, pulses, edible oil, under both the MVAT Act and CST Act. He was not registered for sale and purchase of cement taxable at 12.5 *per cent*.

Our cross-verification of 'C' form issued by the dealer 'A' with the records of another dealer 'B'[39] registered in Tezpur Sales Tax Unit office, Assam revealed that the dealer 'A' had purchased cement valued at ₹ 18.96 lakh from 'B' between January 2007 and March 2008 by utilising two declarations in form 'C'. However, this sale was not disclosed by the dealer and consequently no tax was paid. This concealment of purchase of ₹ 18.96 lakh resulted in evasion of tax of ₹ 2.37 lakh. Besides, he was also liable to pay interest of ₹ 1.58 lakh and penalty of ₹ 4.74 lakh for wilful concealment of such purchase.

[36] ₹ 16.91 lakh @ 8% = ₹ 1.35 lakh
₹ 4.25 crore @ 10.5% = ₹ 44.62 lakh
₹ 3.05 crore @ 2% = ₹ 6.10 lakh
₹ 7.47 crore ₹ 52.07 lakh
[37] Penalty 52.07 x 1.5 = ₹ 52.07 lakh
[38] M/s Megrudra Enterprise
[39] M/s Sanjay Trading Company

2.9.21.3 Wilful concealment of purchase turnover

We noticed that two dealers in ST, Circle-II, Shillong, one dealer in ST, Circle-VI, Shillong, one dealer in ST, Jowai and seven dealers in ST, Nongpoh purchased taxable goods by utilising 'C' forms for ₹ 2.29 crore in course of interstate trade during 2005-06 to 2009-10 at concessional rates. The dealers, however, disclosed purchase of ₹ 37.67 lakh in their accounts as well as utilisation statements of 'C' forms. Thus, the dealers concealed purchase of ₹ 1.91 crore and evaded tax of ₹ 23.88 lakh[40]. Besides, penalty of ₹ 47.76 lakh[41] is also leviable for wilful concealment of purchase.

2.9.21.4 Underassessment of tax due to acceptance of invalid 'C' forms

Rule 12(1) of the CST Rules, 1957 provides that a single declaration may cover all transactions of a sale which take place in a quarter of a financial year. In case the delivery of goods is spread over to different quarters in a financial year, separate declaration forms shall be furnished in respect of goods delivered in each quarter of a financial year.

We noticed during test check of records of the ST, Circle VIII that a dealer[42] disclosed sale of raw limestone valued at ₹ 1.71 crore in course of interstate trade to registered dealers between April 2006 and March 2008. The dealer submitted four declarations in form 'C' and claimed payment of tax at concessional rate. We however, noticed that all the 'C' forms covered transactions of more than one quarter in a financial year. As such, the forms should have been declared invalid. Thus, acceptance of invalid forms led to under assessment of tax of ₹ 7.60 lakh. Besides, interest of ₹ 7.33 lakh was also leviable for default in payment of tax.

2.9.21.5 Difference in Form 'C' and Utilisation statements of the Goods purchased by the dealers of the State

Four dealers registered in ST, Nongpoh purchased goods valued at ₹ 62.38 lakh between 2006-07 and 2009-10 in course of interstate trade at concessional rate by utilising seven 'C' forms. Cross-verification of the forms however, revealed that there was variation in nature of commodity purchased as detailed below:

Name of the dealer	C-form No	Item purchased	Value (₹)	Purchase particulars disclosed in utilisation statement
M/S Purbanchal Alloys Ltd	BB 0099718	Motor Vehicle	756047	GC Sheet of ₹ 32982
M/S Milestone Beverage	FF 0055734	IMFL	210518	ROPP CAPS of ₹ 1,32,000
M/S Milestone Beverage	DD 005240	IMFL	132300	ROPP CAPS of ₹ 1,39,045
M/S Shree Sai Smelters Pvt Ltd	DD 46668	Calcinate Petroleum Coke	2531085	Sponge Iron of ₹ 17,38,188

[40] 1.91 crore @ 12.5% = 23.88 lakh
[41] Penalty 23.88 x 2 = 47.76 lakh
[42] M/s K. Sing Wann and Sons.

Name of the dealer	C-form No	Item purchased	Value (₹)	Purchase particulars disclosed in utilisation statement
M/S Shree Sai Smelters Pvt Ltd	DD 47393	Calcinate Petroleum Coke	1530861	Capacitor of ₹ 90640
M/S Bimal Kumar Agarwal	FF 0040556	Road Roller	910737	Machine
M/S C Enterprise	GG 0064613	Cotton	165521	Olive Oil

The variations in purchases/utilisation with reference to the declaration forms need to be reconciled and in cases where incorrect declaration is established, the dealers would be liable to pay penalty also.

2.9.22 *Grant of exemption on sale was not supported by declaration forms/documentary evidence*

As per the Industries (Sales Tax Exemption) Scheme, 2001 read with Section 8(5) of the CST Act, interstate sales are exempt from payment of tax subject to production of necessary declaration forms/documentary evidence in support of such sales.

We noticed in ST, Nongpoh that 14 industrial units sold goods valued at ₹ 120.95 crore in course of interstate trade. However, there was nothing on record to show that interstate sales were supported by any declaration forms/documentary evidence. As such, the correctness of exemption of ₹ 10.91 crore allowed by STs while finalising assessments (April 2007 and April 2010) could not be verified by audit.

Similarly, in ST, Williamnagar we noticed in January 2011 that two dealers[43] sold coal valued at ₹ 15.99 crore in course of interstate trade between January 2008 and September 2009 and claimed payment of tax at concessional rate. The ST assessed the dealers accordingly between April 2008 and December 2009. However, the forms were not found on record. As such, their correctness could not be ascertained.

We reported the cases to the ERTS Department, GOM in March 2011; reply was awaited (June 2011).

2.9.23 *Incorrect application of rate*

Under Section 8 of the CST Act, tax in respect of interstate sale of goods covered under form 'C' is leviable at three *per cent* upto 31 May 2008 and two *per cent* thereafter.

We noticed during scrutiny of the records of ST, Williamnagar that two[44] dealers sold coal valued at ₹ 3.33 crore between April and May 2008 in course of interstate trade and furnished declarations in form 'C' in support of their sales.

[43] (i) M/s Sanam Traders (ii) M/s S.R. Marak Coal Agency.
[44] (i) M/s Nangwal Coal Agency (ii) M/s Himalaya Coal Agency

The ST while assessing the dealers in July 2008 however erroneously calculated the tax to be paid by them at the rate of two *per cent* instead of three *per cent* due to which tax of ₹ 3.33 lakh was under assessed.

2.9.24 Conclusion

The review revealed a number of system deficiencies regarding receipt, issue and utilisation of 'C' and 'F' forms. These include absence of a reliable database of concessions, exemptions and the revenue foregone, absence of a system for ascertaining the genuineness and correctness of declaration forms submitted by the dealers for claiming concessions and exemption of tax. The functioning of the Enforcement Branch left much to be desired. During the period under review, we observed that the Branch did not find even a single case of utilisation of fake/irregular forms. Non-compliance of the existing Acts, Rules and administrative instructions led to leakage of considerable amount of revenue. 'C' and 'F' forms submitted by the dealers were not uploaded 100 *per cent* in the TINXSYS thereby hampering the process of cross-verification and facilitating tax evasion. The Department needs to strengthen its system of monitoring the declaration forms.

2.9.25 Summary of Recommendation

We recommend that Government may consider:

- prescribing a system for maintaining a database of concessions and exemptions of tax and the revenue foregone due to use of 'C' and 'F' forms.
- prescribing a system for ascertaining the genuineness of the forms submitted by the dealers through cross-verification of transaction with the issuing States.
- issuing directions to the Department for framing budget estimates in respect of revenue realisable from CST and watch collections against the budget estimates.
- inserting a provision in the Rules to provide for annual physical verification of forms by COT/STs and destruction of damaged forms on orders of competent authority.
- revising the rate of sale price of 'C' and 'F' forms, as the rate fixed by the Department has not been revised since the last two decades; besides, a uniform sale price may be fixed for the entire State.
- issuing necessary instructions for timely submission of the declaration forms and ensuring that exemption/concession of tax is not allowed on the forms submitted after the prescribed period of three months without any recorded reasons and
- TINXSYS website be made operational urgently and all assessing officers be advised to use it for cross-verification of transactions.

2.10 Short/non-levy of composition money/penalty

Under Section 75(1) of the MVAT Act, no person shall transport goods except in accordance with the conditions as prescribed in the Act. If a dealer transports goods in contravention of Section 75, the Commissioner may accept from such dealer, a sum not exceeding ₹ 5,000 or double the amount of tax whichever is greater by way of composition of offence as provided under Section 96 of the Act.

We noticed during audit of Byrnihat and Umkiang checkposts and the Enforcement Branch, Shillong that the provisions of the MVAT Act relating to imposition of composition money/ penalty for irregular movement of goods were not being followed resulting in short/non-levy/realisation of composition money/penalty.

2.10.1 A test check of the offence case registers of the Superintendent of Taxes (ST), Byrnihat Checkpost and Officer-in-Charge (OIC), Umkiang checkpost revealed that the ST/OIC detected 6,000 cases between April 2008 and March 2010 in which transporters carried taxable goods without proper particulars and levied/ collected composition money of ₹ 0.13 crore instead of ₹ 3 crore[45] thereby resulting in short levy/realisation of composition money of ₹ 2.87 crore. Further, the ST/OIC did not record the reasons in any of the cases for collecting lesser penalty than that prescribed under the MVAT Act. The value of the goods was also not recorded by the Checkpost authorities and in absence of this; the exact amount of short realisation of penalty cannot be worked out.

Section 76(4) and 76(5) of the Act ibid further stipulates that if the driver or the person in charge of vehicle fails to produce records of taxable goods being carried such as challans, *bills of sale, declaration forms etc., the officer-in-charge of the taxation checkpost/ Enforcement Branch (EB) shall impose a penalty equal to five times the tax leviable on such goods or 20* per cent *of the value of the goods whichever is greater.*

2.10.2 On test check of records of the STs, Byrnihat and Umkiang Checkposts, we noticed that 1,09,253 MT of coal and 36,961 MT of limestone was carried beyond the permissible limit of 15 MT in trucks between April 2008 and March 2010. The excess loads carried were without any *challan*, bill of sale etc. and hence the truckers were liable to pay penalty of ₹ 7.23 crore against which no penalty was levied and collected. This led to short realisation of penalty of ₹ 7.23 crore. The reasons for non-levy of the penalty were also not recorded.

2.10.3 Our test check of offence case register of the ST, EB revealed that the EB intercepted 603 consignments of taxable goods plying without any documents between April 2008 and March 2010. However, the value of goods was not

[45] Calculated at the minimum rate of ₹ 5,000 per offence case

recorded in the register. In 232 cases, tax of ₹ 5.34 lakh was realised but penalty of ₹ 26.70 lakh, at five times the tax payable, was neither levied nor recovered and in the remaining 371 cases, the ST realised penalty of ₹ 10.48 lakh instead of ₹ 18.55 lakh[46] leviable.This resulted in short realisation of ₹ 34.77 lakh.

In the above cases, the checkpost/Enforcement authorities have been callous in implementing the penal provisions framed for deterrent effect. Enforcing the penal provisions would have deterred the trucks from carrying excessive load and also ensured that they carried proper documentation while transporting the goods. The matter is of grave concern and requires immediate remedial action of the higher authorities.

We reported the case to the ERTS Department, GOM in August 2010, September 2010 and January 2011; reply was awaited (September 2011).

2.11 Lack of controls on transit of goods at Checkposts

Under Section 77 of the Meghalaya Value Added Tax (MVAT) Act, 2003 driver/owner of a vehicle carrying goods meant for delivery outside the State, shall obtain a transit pass (TP) at the entry checkpost and produce it at the exit checkpost. He shall obtain an endorsement from the exit checkpost as a proof of such exit within 30 days from the date of entry failing which; the goods are to be deemed as sold within the State.

Mention was made in paras 6.2.17, 2.2.15.1 and 2.20 of the Audit Reports for the years 2007-08, 2008-09 and 2009-10 respectively on the loss of revenue due to failure of the Department to control transit of goods passing through the State on the strength of TPs.

During scrutiny of records of Byrnihat, Umkiang and Garampani Sales Tax checkposts we came across further such instances where out of 1040 TPs issued between April 2008 and March 2010 by the entry checkposts, 244 TPs had not been received back at the exit checkposts resulting in possible evasion of tax of ₹ 39.58 lakh as detailed below:

Name of the Checkpost	Total number of TPs issued	Period during which issued	TPs not surrendered	Amount involved	Tax effect
Umkiang	434	April 2008 and March 2010	37	158.00	15.55
Garampan	383	November and March 2010	185	177.00	22.13
Byrnihat	223	April 2009 and March 2010	22	47.53	1.90
Total	**1040**		**244**	**382.53**	**39.58**

GOM in a written submission tendered before the Public Accounts Committee on 16 May 2011 while discussing our recommendation "Excise, Registration, Taxation, Stamps Department, GOM should introduce a mechanism for effective monitoring of the vehicles carrying goods meant for other States passing through

[46] Penalty =5xTax= 5x3.71-18.55 lakh

the State to arrest the recurring loss of revenue mentioned" mentioned in para 2.2.15.1 of Comptroller and Auditor General's Audit Report for the year 2008-09, had stated that a "computerised mechanism to monitor the movement of vehicles carrying goods meant for other States using the State as a corridor is now in place."

We however found (June 2011) that the process of issue of TPs had been computerised only in Byrnihat Checkpost. This alone cannot prevent unauthorised offloading of goods within the State. As such speedy computerisation of all check posts is required.

We therefore again recommend that pending computerisation of the check posts, Department may issue instructions to the check post authorities to be more vigilant, ensure surrender of TPs at the check posts and in the case of default bring the matter to the notice of ERTS Department for necessary action.

We reported the matter to the Excise, Registration, Taxation, Stamps Department, GOM in July 2011; reply was awaited (September 2011).

2.12 Concealment of purchase turnover

Under Section 45 (1) of the Meghalaya Value Added Tax (MVAT) Act, 2003 if no returns are furnished by a registered dealer in respect of any period by the prescribed date, the Commissioner shall proceed to assess the tax due from the dealer to the best of his judgement. In the case of failure by a registered dealer to furnish return along with payment of admitted tax, the Commissioner may direct the dealer to pay as penalty, in addition to the amount of tax assessed, a sum not exceeding one and a half times of the tax assessed. Further under Section 40 of the Act, if any dealer fails to pay the admitted tax within the due date, simple interest at the rate of two per cent per month from the first day of the month next from the due date is leviable. In Meghalaya 'cement' is taxable at the rate of 12.5 per cent.

We noticed during test check of records of the Superintendent of Taxes (ST), Circle III, Shillong in March 2010 that a dealer[47] was registered on 05 December 2005 under the MVAT Act and his tax liability was fixed from 01 May 2005. The dealer neither filed quarterly returns commencing from the quarter ended June 2006 nor paid any tax. The ST also did not serve any notice to the dealer for submission of returns and payment of tax. After a lapse of three years and seven months from the date of registration, the ST asked the Inspector of Taxes (IT) on 29 July 2009 to conduct an enquiry on the dealer. As per the IT's report submitted on August 3,

[47] M/s MK Enterprise.

2009, the dealer purchased cement valued at ₹ 86.61 lakh from two[48] cement manufacturing units registered under ST, Khliehriat during the period July 2006 and March 2009 which was accordingly accepted by the ST.

We noticed during cross verification of the transactions of the dealer with the records of the aforesaid cement manufacturers, that the dealer actually purchased 40,014 MT of cement valued at ₹ 15.84 crore during the aforesaid period. The dealer thus, concealed purchase turnover of ₹ 14.97 crore as the ST had made assessment only on the basis of accounts maintained by the dealer and had not cross verified with the sales invoices of the aforesaid two cement manufacturing companies.

The concealment of purchase turnover has resulted in short recovery of tax of ₹ 1.87 crore on account of tax evasion. Besides, interest of ₹ 2.81 crore and penalty was also leviable.

We reported the case to the Excise, Registration, Taxation, Stamps Department (ERTS), GOM in June 2010; reply was awaited (September 2011).

2.13 Concealment of sale turnover of coal

Our cross-verification of the records of the Divisional Mining Officer, Williamnagar with those of the Superintendent of Taxes, Williamnagar in February 2011 showed that three dealers[49] had paid royalty to the former on 66,600 MT of coal sold in course of interstate trade between April 2009 and March 2010. However, in their returns filed with the ST they disclosed sale of only 39,540 MT of coal in course of interstate trade during the same period and the ST assessed the dealers accordingly between August 2009 and May 2010. The dealers thus concealed sale of 27,060 MT of coal valued at ₹ 8.66 crore and evaded tax of ₹ 34.64 lakh which needs to be recovered. Besides, penalty of ₹ 69.28 lakh was also leviable.

We reported the case to the Excise, Registration, Taxation, Stamps Department, GOM in March 2011; reply was awaited (September 2011).

2.14 Failure to properly cross link records led to concealment of turnover

Under Section 96 of the MVAT Act, if any dealer furnishes a false return of turnover, he shall be liable to pay in addition to the tax, a penalty equal to double the amount of tax whichever is greater by way of composition of offence.

We noticed during test check of records of the Superintendent of Taxes (ST), Williamnagar in January 2011 that two

[48] M/S Cement Manufacturing Company Limited and M/S Megha Technical and Engineers Private Limited.

[49] (i) Shri Keningson Momim (ii) Shri Suel Marak (iii) Shri Kelbal M. Sangma

dealers[50] sold/despatched coal valued at ₹ 9.85 crore to dealers in West Bengal between January 2010 and March 2010 and the dealers were assessed accordingly in May 2010. We also, however, observed from the scrutiny of the records of Umkiang ST checkpost that 37,400 MT of coal valued at ₹ 11.97 crore was transported by these two dealers through the said checkpost during the same period but which the dealers concealed in their sale returns. Further, although the Umkiang ST checkpost forwarded these details to the ST, Williamnagar in April 2010, the ST did not take note of this information while assessing the two dealers to tax in May 2010. Thus, the lapse on the part of the ST to properly verify all connected records available with him at the time of making the assessments led to a concealment of turnover of ₹ 11.97 crore going unnoticed thereby resulting in evasion of tax of ₹ 47.87 lakh. Besides, interest of ₹ 8.62 lakh and penalty of ₹ 95.74 lakh was also leviable.

The case was reported to the ERTS Department, GOM in March 2011; reply was awaited (September 2011).

2.15 Suppression of turnover by contractors

Under the MVAT Act, each and every return in relation to any tax period furnished by a registered dealer shall be subject to scrutiny by the Assessing Officer to verify the correctness of calculation, application of correct rate of tax, full payment of tax, interest and input tax credit claimed therein. If the Commissioner is satisfied that a dealer has furnished incorrect particulars of his sales in his return he may ask the dealer to produce detailed accounts and records for further verification of such return.

We noticed during test check of records of the ST, Circle IV, Shillong in November 2010 that two dealers[51] were awarded works contracts valued at ₹ 4.58 crore by the North Eastern Hill University in March 2008. The works were completed in June 2009. The dealers submitted quarterly returns for the period April 2008 to June 2009 and disclosed taxable turnover of ₹ 1.99 crore and non-taxable turnover of ₹ 0.74 crore. The ST after scrutiny in January 2010 accepted the returns as correct. Thus, against contractual value of ₹ 4.58 crore, the contractors disclosed turnover of ₹ 2.73 crore resulting in escapement of turnover of ₹ 1.85 crore. This led to evasion of tax of ₹ 24.50 lakh. Besides, penalty of ₹ 49 lakh was also leviable for concealment of turnover.

[50] (i) M/s Fencilla D. Arengh. (ii) M/s Megha Overseas.
[51] M/s D.G. Marbaniang and M/s B.D. Marbaniang.

2.16 Underassessment of tax due to undervaluation of sale price of petroleum products

Under Section 16 of the Meghalaya (Sales of Petroleum etc.,) Taxation Act, if the Commissioner is satisfied that any dealer has concealed the particulars of his turnover or deliberately furnished inaccurate particulars of such sales, he may direct that such dealer shall pay by way of penalty, in addition to the tax payable by him, the sum not exceeding one and a half times that amount. Further, Section 20A of the Act ibid provides for interest at prescribed rates for belated payment of tax.

We noticed during test check of records of the ST, Circle III, Shillong in March 2010 that a dealer[52] purchased 1,68,000 litres of Motor Spirit (MS) and 8,62,000 litres of High Speed Diesel (HSD) at ₹ 58,43,610 and ₹ 2,34,52,946 respectively between December 2006 and June 2007 at ₹ 34.78 per litre of MS and ₹ 27.20 per litre of HSD. The dealer sold 1,53,227 litres of MS and 8,15,746 litres of HSD between January and June 2007 and disclosed sale price of ₹ 2.50 crore which was accepted and assessed by the ST in February 2008. Even considering sale price to be the same as purchase price, the turnover of MS and HSD should not be less than ₹ 2.75 crore. Thus, the dealer concealed minimum turnover of ₹ 25.40 lakh and evaded tax of ₹ 3.93 lakh (including surcharge).Besides, interest of ₹ 2.47 lakh and penalty of ₹ 5.78 lakh was also leviable which needs to be recovered. The amount would be even more if the profit element could be determined.

We reported the case to the ERTS Department, GOM in June 2010; reply was awaited (September 2011).

2.17 Short levy of tax due to delay in fixation of market price of coal

The Geology and Mining Department, GOM fixed the pit head price of coal at ₹3200 per MT with effect from September 2009. The ERTS Department, GOM however implemented the aforesaid rate only from October 2010 after a lapse of 13 months.

We noticed during test check of records (May 2010) of the Superintendents of Taxes, Circles I and II, Tura and Williamnagar that 36 dealers sold 17.88 lakh MT of coal in course of interstate trade between October 2009 and September 2010. The taxable turnover of coal was disclosed at ₹ 221.79 crore by the dealers in their returns for the aforesaid period which was assessed accordingly by the STs. Had the ERTS Department promptly implemented the revised price of coal in September 2009 following the revision by the Geology and Mining Department instead of from October 2010, the minimum sale price of 17.88 lakh MT of coal would have been ₹ 578.63 crore instead of ₹ 221.79 crore.

[52] M/s Sagarmal Ram Kumar

This delay on the part of the ERTS Department led to short determination of turnover of ₹ 356.84 crore leading to short levy of tax revenue of ₹ 14.27 crore.

We reported the cases to the ERTS Department in March 2011; reply was awaited (September 2011).

2.18 Loss of revenue due to non-completion of assessment

Section 17(4) of the Assam Sales Tax (AST) Act, 1947 (as adopted by the GOM) states that if a dealer fails to submit returns along with payment of admitted tax or after submission of returns fails to produce books of accounts despite notices, the tax assessment of such dealer shall be completed on best judgement basis.

During test check of records of the ST, Circle I, Shillong in February 2010 we noticed that a dealer[53] executed works contract valued at ₹ 6.55 crore between April 2003 and March 2005 as per the six-monthly returns furnished by him to the ST. The dealer was thus, liable to pay tax of ₹ 46.73 lakh against which tax of ₹ 31.01 lakh was belatedly paid (January 2008) leaving tax of ₹ 15.72 lakh and interest of ₹ 39.21 lakh unpaid. The ST did not initiate any action either to issue notices for submission of books of accounts or to assess the dealer on best judgement basis. The dealer intimated the ST in January 2008 about his closure of the business in the State since December 2005 and also surrendered his Registration Certificate. The ST issued notice to the dealer for production of books of accounts followed by reminder in May 2008. The dealer has not complied with the notices served and the case record has been left unattended. Thus, failure on part of the ST to initiate timely action to assess the dealer on best judgment basis and thereafter leaving the cases unattended resulted in non-realisation of revenue of ₹ 54.93 lakh

We reported the case to the ERTS Department, GOM in April 2010; reply was awaited (September 2011).

2.19 Non-levy of tax due to non-registration of dealers

During test check we detected two cases of non-registration of dealers as detailed below:

2.19.1 In ST, Nongpoh we noticed in August 2010 that the survey register was neither maintained nor submitted to the ST periodically. No monthly report of survey conducted was submitted to the COT for review. The EB did not detect even a single case of non-registration.

[53] M/s Ansal Build Well Limited

Under Section 3 of the MVAT Act, every dealer whose turnover during the year immediately preceding the commencement of this Act exceeded ₹ 1 lakh is liable for registration. To identify unregistered dealers and to bring them under the tax net, the COT ordered the Inspector of Taxes (IT) to conduct regular surveys and maintain survey registers. A monthly report of the results of the survey conducted was to be submitted to the COT for reviewing the performance of the ITs. Further, the Enforcement Branch (EB) was also responsible for detection of unregistered dealers. In Meghalaya, timber and cement are taxable at the rate of 12.5 per cent.

We however, noticed from the records of two[54] cement manufacturing units registered under ST, Khliehriat that three dealers 'A', 'B' and 'C'[55] purchased cement valued at ₹ 1.31 crore from the above two cement manufacturing units during the period from May 2005 to March 2009. But the dealers neither applied for registration nor were detected by the area IT or the EB for compulsory registration though they were liable for registration. Thus, failure on the part of the ERTS Department to register them led to non-levy of tax of ₹ 16.38 lakh. Besides penalty ₹ 16.38 lakh was also leviable.

2.19.2 We noticed during test check of records of the Divisional Forest Officer (DFO), Garo Hills Division in January 2011 that the Division had sold timber valued at ₹ 1.29 crore during the period from April 2005 to March 2009. The Division, being a selling unit, though liable to be registered was not registered under the MVAT Act. The dealer thus carried on sale of taxable goods without being registered. This lapse on the part of the registering authority led to loss of revenue of ₹ 16.10 lakh in the shape of tax which was not collected by them.

We reported the above cases to the ERTS Department, GOM in March 2011; their reply has not been received (September 2011).

[54] (2) M/s CMC Ltd (2) M/s MT & E Ltd.
[55] (1) M/s Ri-Bhoi Enterprise. (2) M/s Olding Nongsud. (3) M/s Manisha Sanitary.

2.20 Non-realisation of additional security

The COT, GOM notified in September 2003 that all traders carrying in excess of 15 metric tonnes (MT) per truck in course of interstate trade shall pay at the checkpost, additional security for the excess load so carried at the rate of ₹ 120 per MT and ₹ 35 per MT for coal and limestone respectively. The additional security was in addition to the advance tax of ₹ 1800 and ₹ 525 per truck of coal and limestone respectively for 15 MT. Further, as per Section 76(5) of the MVAT Act, where the goods in movement are without documents, the officer-in-charge of the check post shall impose penalty equal to the amount of five times of the tax leviable on such goods or 20 per cent of the value of the goods, whichever is higher.

We noticed during test check of records of the ST, Byrnihat check-post in October 2010 that 1,388 and 1,659 trucks carried 3,454 MT and 8,729 MT of coal and limestone respectively in excess of permissible limit and paid ₹ 7.77 lakh as additional security at the checkpost between April 2009 and March 2010. However a cross check for this same period with the records of the Checkpost of the Directorate of Mineral Resources (DMR), GOM located at the same station showed that 6,163 and 25,873 trucks carrying 5,571 MT and 1,21,858 MT of coal and limestone respectively, in excess of permissible limit had crossed the DMR checkpost. Thus, 2,117 MT of coal and 1,13,129 MT of limestone were allowed to cross the Byrnihat ST checkpost without additional security of ₹ 42.14 lakh being realised. Besides, penalty of ₹ 2.11 crore was also leviable under the MVAT Act.

We reported the matter to the ERTS Department, GOM in January 2011; reply was awaited (September 2011).

2.21 Non-deduction of tax at source

Section 106 of MVAT Act stipulates the deduction of tax at source by the buying Government Departments/organisations while making payments to suppliers and deposit of the tax into Government account. If the Department/organisation fails to deduct tax at source as required under section 106 ibid , the person authorising the payment shall, in addition to the tax recoverable, be punishable with simple imprisonment which may extend to six months or with fine not exceeding ₹ 10,000 or with both as provided under Section 90(xix) of the Act.

Mention was made in para numbers 6.27, 6.29 & 6.33, 2.2.16 and 2.19 of the Comptroller and Auditor General of India's Audit Reports for the years 2006-07, 2007-08, 2008-09 and 2009-10 respectively on non-deduction of tax at source by the authorised officers of the Government Departments/ organisations amounting to ₹ 1.43 crore.

However, we found that no remedial steps have been taken for ensuring the recovery of taxes and the omissions persisted. We cross-verified the records of three STs[56] with three Government organisations and found that they had not deducted tax at source while purchasing goods worth ₹ 3.12 crore from five dealers as detailed in the table below:

Sl No	Name of ST office/ No of dealers	Period of scrutiny	Name of the organisation that made payment to a contractor without deducting tax at source	Turnover concealed	Tax/penalty evaded
1	Circle III One contractor	April 2009	Khasi Hills Autonomous District Council between December 2003 to February 2008	₹ 1.93 crore	₹ 0.15 crore/ ₹ 0.31 crore
2	Circle IV Three contractors	September and November 2009	North East Indra Gandhi Institute of Health and Medical Sciences between May 2005 to December 2007	₹ 0.69 crore	₹ 0.07 crore/ ₹ 0.14 crore
3	Circle VI One contractor	February 2010	North Eastern Hill University during December 2007	₹ 0.49 crore	₹ 0.06 crore/ ₹ 0.13 crore

In none of the cases pointed out in earlier ARs including the present cases, did the COT invoke the provisions of the MVAT Act, to make good the revenue losses caused by the concerned authorities.

We reported the matter to the Excise, Registration, Taxation, Stamps Department, GOM in June 2011; reply was awaited (September 2011).

2.22 Non-levy of tax on sales made during the unregistered period

Under the MVAT Act if a dealer liable to pay tax fails to get himself registered, the Commissioner shall assess the dealer to the best of his judgement. Further, the dealer shall pay by way of penalty, in addition to the amount of tax so assessed, a sum equal to the amount of tax assessed. Section 106 of the Act provides for deduction of tax at source by the buying government departments while making payments to suppliers and deposit of such tax deducted into government account.

We noticed during test check of the records of the ST, Circle IV, Shillong in November 2010 that a dealer[57] dealing in scientific and laboratory equipments was registered on 06 November 2006 with his date of tax liability fixed from 05 July 2006 under the MVAT Act. We cross-verified the records of the Director of Technical Education (DTE), Shillong and found that the dealer had supplied taxable goods valued at ₹ 78.53 lakh between September 2005 and March 2006 to the DTE when he was not registered as a dealer under the MVAT Act. The DTE neither deducted the tax at source as required nor did the dealer pay the tax due to

[56] STs Circle III (one dealer), IV (three dealers) and IV (one dealer)
[57] M/s Laboratory Aids

Government thereby resulting in evasion of tax of ₹ 9.82 lakh. Besides, interest of ₹ 10.60 lakh and penalty of ₹ 9.82 lakh was also leviable.

We reported the case to the Excise, Registration, Taxation, Stamps Department, GOM in January 2011; reply was awaited (September 2011).

2.23 Irregular grant of exemption

*Boulder, stone and sand are taxable goods and therefore their value forms part of the contractual transfer price when these materials are used in the execution of works contract** and cannot be deducted from the turnover.*

** Cooch Behar Contractors Association and others Vs State of West Bengal and others (1996) 103 STC 477 (SC)

We noticed during test check of the assessment records of the ST, Circle I, Shillong in February 2010 that a dealer[58] executed works contract valued at ₹ 2.93 crore between July 2006 and March 2008 and claimed deduction of ₹ 0.96 crore towards labour, power, fuel and water charges. Besides, the dealer also claimed deduction of ₹ 44.43 lakh as the value of boulders, stone and sand used in the execution of works contract from the gross turnover during the aforesaid period which was duly accepted by the ST. Since boulders, stone and sand were used in the execution of works contract, their value forms part of the contractual price and therefore cannot be deducted from the gross turnover. Thus the grant of exemption by the ST was irregular and resulted in under assessment of tax of ₹ 5.53 lakh. Besides, interest of ₹ 3.55 lakh is also leviable.

We reported the case to the ERTS Department, GOM in April 2010; reply was awaited (September 2011).

2.24 Under assessment of tax due to irregular exemption on export

Under Rule 12(10)(a) of the CST (R and T) Rules, 1957 a dealer may be exempted from payment of tax in respect of any sale of goods exported out of the territory of India within the meaning of section 5(3) if he furnishes a certificate in Form 'H' duly filled and signed by the exporter along with evidence of export of such goods.

In ST, Nongpoh, we noticed that a dealer[59] sold soya nuggets, soyabari *etc.* valued at ₹ 1.96 crore which were exported outside India between April 2005 and September 2009. The dealer furnished Form 'H' in support of the exports and claimed exemption from payment of tax. The ST assessed the dealer accordingly. On scrutiny of 'H' forms we found that most of the columns of the forms were blank. Two forms containing transaction of ₹ 40.09 lakh were not even signed by the exporter. The dealer also failed to

[58] M/S N.K Trading Company
[59] M/s Vansha Fragrances

furnish evidence of export of goods along with 'H' forms which is mandatory as per provision of the Rules *ibid*. As such the exemption granted was irregular resulting in under assessment of tax of ₹ 24.50 lakh.

After we pointed out the lapse, the ST stated in March 2011 that the onus to prove the actual export lied with the purchasing dealer issuing the 'H' form. The reply is not correct as it is mandatory on the part of the exporting dealer to collect copies of all export documents from the purchasing dealer and furnish the same to the ST along with 'H' forms to claim exemption from payment of tax in respect of export within the meaning of section 5(3) of the CST Act.

We reported the case to the ERTS Department, GOM in September 2011; reply was awaited (September 2011

2.25 *Irregular exemption on scrap*

Under the Meghalaya Industries (Sales Tax Exemption) Scheme, 2001 eligible industrial units are entitled to tax exemption on sale of finished goods produced. For claiming exemption, the dealer has to furnish an Eligibility Certificate (EC) from the Industries Department and a Certificate of Authorisation (CA) from the ERTS Department wherein items to be manufactured are recorded.

We noticed during scrutiny of the assessment records of the ST, Nongpoh in August 2010 that a manufacturer[60] was exempted from payment of tax under the Meghalaya Industries (Sales Tax Exemption) Scheme, 2001 for manufacture of GI pipes, poles *etc*. We noticed from the audited annual accounts of the unit that the dealer sold finished goods valued at ₹ 94.72 crore and scrap valued at ₹ 2.04 crore during April 2004 and March 2006. The dealer claimed tax exemption not only on the sale of finished goods but on the sale of scrap as well. The ST assessed the dealer accordingly. Since 'scrap' is not a 'finished good' under the Meghalaya Industries (Sales Tax Exemption) Scheme, 2001 the grant of tax exemption on this count by the ST was irregular and resulted in under assessment of tax of ₹ 8.16 lakh.

The ST in March 2011 did not accept our observation and stated that the exemption granted was in order as scrap was derived as a result of manufacturing process and as such the unit was a manufacturer of scrap also. We are of the view that the ST's contention is not in keeping with the spirit and objective of the Meghalaya Industries (Sales Tax Exemption) Scheme, 2001 which is to provide tax relief to industrial units in the State producing finished goods. Against this background, it would be utterly erroneous to interpret that any discarded/waste material arising out of the manufacturing process ('scrap' in this case) is also a finished good eligible for tax relief.

[60] M/s Nezone Industries Ltd.

Recommendation: In order to bring clarity, uniformity of application/ interpretation to this issue State-wide, it is recommended that the ERTS Department issue a clarification on this matter to all STs of the Department.

We reported the case to the ERTS Department, GOM in September 2010; reply was awaited (September 2011).

2.26 Non disclosure of opening stock

Under Section 39(1) of the MVAT Act, each and every return furnished by a dealer shall be subject to scrutiny by the Superintendent of Taxes (ST) to verify the correctness of calculation, application of correct rate of tax, levy of interest, penalty and grant of Input Tax Credit (ITC) claimed. If the Commissioner has reason to believe that the dealer has furnished incorrect particulars of his turnover of sales, he may verify in detail the purchases, sales, stock of good etc. to verify the correctness of return.

In ST, Circle III, Shillong, we noticed in March 2011 that two dealers[61] disclosed turnover of ₹ 63.42 lakh in their returns for the period from May 2005 to March 2010. The ST scrutinised the returns (between May 2009 and September 2010) and accepted the returns as correct. The dealers did not disclose opening stock as on 01 May 2005. Even considering opening stock as nil, we noticed on scrutiny of particulars available in the case records of the dealers that they actually sold goods valued at ₹ 2.19 crore[62] during the aforesaid period. The dealers thus, concealed turnover of ₹ 1.56 crore and evaded tax of ₹ 19.45 lakh. Besides, penalty of ₹ 38.90 lakh was also leviable for concealment of sales turnover. The tax effect would be even more if opening stock and element of profit could be ascertained.

We reported the cases to the ERTS Department, GOM in June 2011; reply was awaited (September 2011).

2.27 Non-realisation of tax due to closure of business

Under Section 54(1) of the MVAT Act, where a registered dealer fails to furnish his return in respect of any tax period within the prescribed date, the Commissioner shall proceed to assess the dealer provisionally for the period of default.

We noticed during test check of records of the ST, Circle IV, Shillong in November 2010 that a dealer[63] executed a works contract valued at ₹ 1.70 crore in March 2005. The dealer furnished returns upto 31 March 2006, disclosing a

[61] M/s R.K. Enterprise and M/s Chandra's

[62] (Opening Stock) +(Purchase) - (Closing Stock) = Sale
Nil + ₹ 2.32 crore - ₹ 0.13 crore = ₹ 2.19

[63] ABCI & IDC

turnover of ₹ 1.01 crore and paid tax of ₹ 3.05 lakh. The dealer thereafter neither submitted any returns nor paid any tax for subsequent periods. The ST also did not make any effort to assess the dealer provisionally and recover the assessed tax. As a result, the turnover of ₹ 69 lakh, being the balance amount of works executed after March 2006, was concealed by the dealer resulting in evasion of tax of ₹ 8.66 lakh. Besides, interest of ₹ 7.62 lakh and penalty of ₹ 17.32 lakh was also leviable. Since the dealer discontinued his business, the possibility of recovering these amounts is remote which consequently will result in a revenue loss of ₹ 33.60 lakh.

We reported the case to the ERTS Department, GOM in January 2011; reply was awaited (September 2011).

2.28 Under assessment of tax due to incorrect application of rate of tax

As per Section 2(xii) of the MVAT Act, 'capital goods' means plants, machinery and equipments purchased for manufacturing or processing of goods. For a trader dealing in plant and machinery etc., they are to be treated as goods or trading items and for a manufacturer who purchases such plant and machinery, they are capital goods. In Meghalaya, 'capital goods' is taxable at the rate of four per cent *whereas 'boilers' is taxable at 12.5* per cent.

We noticed during test check of records of ST, Circle I, Shillong in November 2010 that a dealer[64] sold a 'boiler' to an industrial unit[65] at Byrnihat and disclosed a total turnover of ₹ 2.02 crore for the period September 2007 to April 2008. At the time of scrutiny (August 2010), the ST calculated tax at the rate of four *per cent* treating the item 'boiler' as 'capital goods'. Since 'boiler' was a trading item to the dealer, the entire turnover was taxable at the rate of 12.5 *per cent* instead of four *per cent*. Thus, due to incorrect application of rate, there was short levy of tax of ₹ 17.20 lakh.

We reported the case to the ERTS Department, GOM in December 2010; reply was awaited (September 2011).

2.29 Incorrect application of rate of tax on works contract

In Meghalaya, 'works contract' is taxable at the rate of 12.5 per cent *as per Schedule IV of the MVAT Act. All the goods (except declared goods) involved in the execution of a works contract is taxable at a uniform rate of 12.5* per cent *irrespective of the rates applicable to individual goods.*

We noticed during test check of the records of the Superintendent of Taxes (ST), Circle I, Shillong in February 2010 that a dealer[66] executed works contract valued at ₹ 63.12 crore between April 2006

[64] M/s Cethar Vessels Ltd.
[65] M/s Maithan Alloys Limited
[66] M/s ITD Cementation India Ltd

and March 2009. The dealer incurred expenditure of ₹ 46.14 crore towards cost of labour and other like charges and the amount was accordingly exempted from payment of tax. Out of taxable sale of ₹ 16.98 crore, ₹ 8.01 crore was calculated at 12.5 *per cent* and ₹ 8.97 crore at four *per cent*. We further noticed that the dealer utilised stone aggregate, sand *etc.,* valued at ₹ 2.32 crore in execution of works contract and paid tax at the rate of four *per cent* and the ST accepted the return accordingly. Since in a works contract, the materials utilised have no separate identity as a commercial article, all the goods are taxable at a uniform rate of 12.5 *per cent* instead of four *per cent*. This resulted in short levy of tax of ₹ 18.96 lakh. Besides, interest of ₹ 7.95 lakh is also leviable.

We reported the case to the ERTS Department, GOM in April 2010; their reply has not been (September 2011).

2.30 Short levy of interest

We noticed during scrutiny of the records of the ST, Circle III in March 2011 that the returns of a dealer[67] for the period from 01 May 2005 to 31 March 2008 were scrutinised by the ST in February 2009 who detected no anomaly except for the non-levy of interest of ₹ 1.47 lakh for belated payment of self assessed tax of ₹ 32.33 lakh for the aforesaid period. We however, noticed that the dealer paid the tax belatedly on different dates between August 2006 and September 2008. For belated payment of tax, interest of ₹ 6.11 lakh was leviable against which interest of ₹ 1.47 was levied. Thus, omission on part of the ST, to take into account the dates of payment of taxes, while scrutinising the returns led to short levy of interest of ₹ 4.64 lakh.

Under Section 39(1) of the Act ibid, *each and every return shall be scrutinised by the ST to verify the correctness of levy of interest, rate of tax etc.*

The case was reported to the ERTS, GOM in June 2011; reply was awaited (September 2011).

2.31 Evasion of tax by owners of commercial motor vehicles

Under Section 4 of the Meghalaya Passengers and Goods Taxation (MPGT) Act, 1971 and Rule 11 of the MPGT Rules framed thereunder, the State Government is empowered to levy a lump sum tax, payable in advance either for the whole year or for each quarter, on fare and freight in respect of passengers and goods carried in commercial vehicles.

The lump sum taxes on fare for different types of vehicles are as under:

BUS	TRUCK	MAXI CAB	AUTO RICKSHAW
₹ 6568	₹ 5710	₹ 5208	₹ 1740

Further, Motor Vehicles Tax (MVT) is assessed and collected by the Transport Department whereas the lump sum tax

[67] M/s Aashiyana

under the MPGT Act is assessed and collected by the Taxation Department.

We had in past Audit Reports (ARs) reported evasion of the tax under the MPGT Act by owners of commercial vehicles. The cases reported in the Audit Reports for the year ended 31st March 2001 and onwards are listed in the table below:

(₹ in lakh)

AR for the year ended	Para no	Superintendents of Taxes(ST) where evasion occurred	Tax evaded
31.03.2001	Paras 6.7.16 and 6.7.17	ST, Shillong, Jowai, Byrnihat	32.74
31.03.2002	Para 6.20.2	ST, Williamnagar	4.18
31.03.2003	Para 5.27	ST, Tura, Williamnagar	18.23
31.03.2007	Para 6.25	ST, Shillong, Tura, Wiiliamnagar	61.31
31.03.2009	Para 3.3	ST, Tura	8.86
Total			**125.32**

During scrutiny of records of the ST, Williamnagar and Nongstoin, we came across further such instances as stated below:

We cross verified the records of the above two STs with the records of the District Transport Officers (DTO) of Williamnagar and Nongstoin districts and noticed that 701 commercial vehicles[68] were registered under the Motor Vehicles Taxation Act on various dates between April 2005 and March 2010 with the two DTOs. However, except for 41 vehicles[69] none of the remaining 660 vehicle owners applied for registration under the MPGT Act nor did the STs also initiate any action[70] to register these vehicles and realise the due tax. This led to a tax evasion of ₹ 80.24 lakh.

In para 6.7.28 of the Audit Report for the year ended 31 March 2001, we had recommended that the responsibility to assess and collect the lump sum tax under the MPGT Act be shifted from the Taxation Department to the Transport Department as this would, apart from arresting further evasion of tax, result in a more efficient and cost-effective tax collection mechanism. The recommendation was, however, not implemented by the State Government. Had this been done, the cases of tax evasion detected by Audit and pointed out in the Audit Reports (from the Audit Report for the year ended 31 March 2002 and onwards and including the present case reported) to the extent of ₹ 172.82 lakh could have been prevented. We observed that in Assam, the tax under the MPGT Act is collected by the Transport Department.

[68] Trucks: 444; Buses: 16; Maxi cabs: 111; Auto rickshaws: 130

[69] Truck: 26, Bus: 04, Maxi cab: 09, Auto rickshaw: 02

[70] Under Rule 34(4) of the MPGT Rules (Assam Passengers and Goods Taxation Rules, 1962 as adapted by Meghalaya), the ST may at any time call upon an owner by a general or specific notice to register himself within the period prescribed in the notice.

We recommend that the responsibility to collect the tax under the MPGT Act be transferred from the Taxation Department to the Transport Department.

We reported the matter to the Excise, Registration, Taxation & Stamps Department, GOM in October 2010 and March 2011; reply was awaited (September 2011).

EXECUTIVE SUMMARY

Increase in tax collection	In 2010-11, the collection of revenue from State Excise was increased by 17.74 *per cent* over the previous year due to increase in number of Bonded Warehouses, enforcement activities and revision of licence fee.
Internal audit not conducted	Audit of State Excise Department has not been conducted by the Examiner of Local Accounts over the past few years. This resultantly had its impact in terms of the weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omissions on the part of the Department remaining undetected till we conducted audit.
Very low recovery by the Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10, we had pointed out non/short realisation of excise duty, licence fee, penalty etc. With revenue implication of ₹ 82.16 crore in 20 cases. Of these, the Department/ Government accepted audit observation in seven cases involving ₹ 72.85 crore but recovered only ₹ 0.22 crore in two cases. The recovery position as compared to acceptance of objections was negligible.
Results of audits conducted by us in 2010-11	In 2010-11, we test checked the records of eight units relating to State Excise and found short/non-realisation of excise duty, fees, fines etc involving ₹ 38.57 crore in 30 cases. The Department accepted short/non-realisation of duties, fees, fines etc in one case and recovered ₹ 2.23 lakh.
What we have highlighted in this chapter	In this chapter, we present illustrative cases of ₹ 98.64 lakh selected from observations noticed during our test check of records relating to assessment and collection of duties,

	fees etc by the Department, where we found that the provisions of the Acts/Rules were not observed. It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.
Our conclusion	Due to non-functioning of the internal audit wing, the Department could not address the system deficiencies and detect the loopholes and lacunae in its functioning. It also needs to initiate immediate action to recover the non-realisation of duties, fees penalties etc printed out by us, more so in those cases where it has accepted our contention.

CHAPTER III: STATE EXCISE

3.1 Tax administration

The Principal Secretary, Excise, Registration, Taxation and Stamps (ERTS) Department is the head of the Excise Department at the Government level. At the Department level, the Commissioner of Excise (CE) monitors the functioning of the Department. The implementing authority at the district level is the Superintendent of Excise (SE), who is responsible for the collection of all excise duties and fees as also for the proper functioning of the bonded warehouses and distilleries. The Assam Excise Act and Rules, the Assam Distillery Rules and the Assam Bonded Warehouse Rules (adopted by Meghalaya) regulate all excise related activities including revenue collection in the State. The Excise Department is one of the highest revenue earning departments in the State, after Taxation and Mining & Geology departments.

3.2 Trend of receipts

Actual receipts from excise during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph.

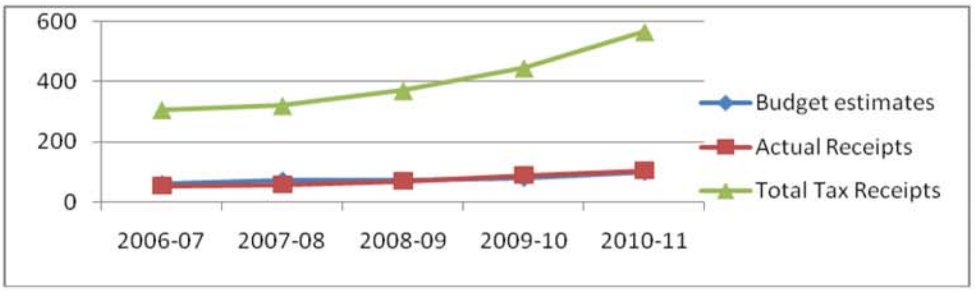
(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	60.00	53.95	(-) 6.04	10	304.74	18
2007-08	71.58	58.62	(-) 12.96	18	319.10	18
2008-09	71.57	69.79	(-) 1.78	2	369.44	19
2009-10	80.15	90.29	(+) 10.14	13	444.29	20
2010-11	100.14	104.50	(+) 4.31	4	566.07	18

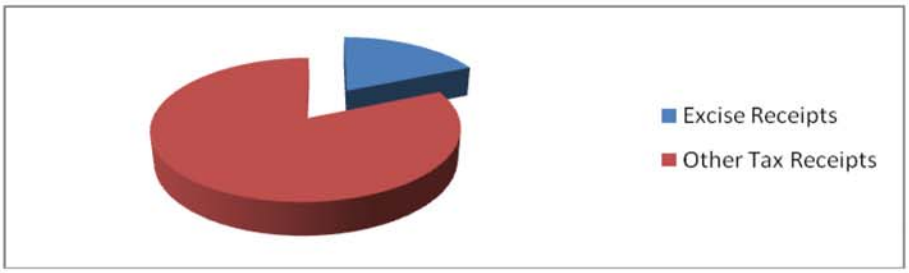
Thus, the percentage variation which was (-) 6 *per cent* in 2006-07 had shown correction and went up to the level of (+) 4 *per cent* in 2010-11. The variation is within limit and shows that the budget estimates were properly framed.

Excise receipts have been consistently been in the range of 18-20 *per cent* of the total tax receipts of the State for the last five years.

A line graph of budget estimates, vis-à-vis the actual receipts and total tax receipts of the State may be seen below:



Also a pie chart showing the position of actual excise receipts vis-à-vis the total tax receipts during the year 2010-11 may be seen below:



3.3 Cost of collection

The percentage of cost of collection (expenditure incurred on collection) of the Excise Department during the year and the preceding two years mentioned in the following table indicates that it is more than the All India average percentage of the cost of collection. Besides no reason for increase in cost of collection during 2011-12 over 2009-10 were furnished by the Department. The Government needs to take appropriate measures to bring down the cost of collection.

Year	Actual revenue (in crore)	Cost of collection (in crore)[1]	Percentage of expenditure on collection	All India average percentage of preceding years
2008-09	69.79	6.21	8.90	3.27
2009-10	90.29	7.23	8.19	3.66
2010-11	104.50	9.95	9.52	3.64

[1] Departmental figure

3.4 Impact of audit reports

3.4.1 Revenue impact

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation etc., with revenue implication of ₹ 78.88 crore in 20 paragraphs. Of these, the Department/Government had accepted audit observations in six paragraphs involving ₹ 72.82 crore and had since recovered ₹ 0.28 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	4	3.98	2	3.68	-	--
2007-08	3	0.43	1	0.16	-	--
2008-09	1	68.66	1	68.59	1	0.16
2009-10	8	4.82	2	0.39	2	0.12
2010-11	4	0.99	-	-		
Total	**20**	**78.88**	**6**	**72.82**	**3**	**0.28**

Thus, against the accepted cases involving ₹ 72.82 crore, the Department/ Government has recovered an amount of ₹ 28 lakh which is 0.38 *per cent*.

We recommend that the Department needs to revamp its revenue recovery mechanism to ensure that they could recover at least the amount involved in the accepted cases.

3.5 Results of Audit

Test check of the assessment cases and other records of 08 units relating to the Excise Department during the year 2010-11 revealed non-realisation of duties, fees etc., amounting to ₹ 38.57 crore in 30 cases, which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-realisation of fees/duties etc.	6	29.91
2.	Non-renewal of licences	7	0.80
3.	Other irregularities	17	7.86
Total		**30**	**38.57**

A few illustrative audit observations involving ₹ 16 lakh are mentioned in the succeeding paragraphs.

3.6 Non-compliance of the provisions of the Acts/Rules

The provisions of the Assam Excise Act 1910 and Rules framed thereunder (adopted by Meghalaya) require levy and payment of:

- Annual fee in advance for renewal of licence at prescribed rate.
- Import Pass fee for import of absolute alcohol/IMFL.
- Security deposit in advance for ensuring prompt payment of licence fees, penalties.

Non-compliance of the provisions of the Act/Rules in some cases as mentioned in succeeding paragraphs resulted in non-realisation of ₹ 16 lakh.

3.7 Non-realisation of licence fee

A bottling plant, for renewal of licence is required to pay in advance, an annual fee at rates prescribed from time to time. The validity period of licence is from April of a year to March of the next year. As per instruction 141 of the Excise Act, if the licencee fails to pay licence fee before the start of the next financial year, his establishment is to be closed by the Assistant Commissioner of Excise (ACE) with the approval of the Commissioner of Excise (COE) until the fee is paid and on failure to pay the fee promptly, the licence is required to be cancelled.

We noticed during test check of records of the COE, Meghalaya in April 2010 that M/s North East Bottling plant did not renew the licence for the period 2008-09, 2009-10 and 2010-11. The ACE did not take up the matter with the COE to either issue demand notice to the licence owner to pay the fees or cancel the licence. Instead, the bottling plant was also allowed to manufacture and sell IMFL during the period which was highly irregular. Thus, laxity on the part of the COE led to unauthorised operation of the plant besides non-realisation of licence fee of ₹ 12.30 lakh.

We reported the case to the Excise, Registration, Taxation, Stamps (ERTS) Department in May 2010; reply was awaited (September 2011).

3.8 Irregular grant of exemption

Under Rule 27 of the Meghalaya Excise Rules, import of foreign liquor shall be covered by a pass and the State Government is empowered to grant exemptions to certain organisations / institutions from payment of pass fee for the import of denatured spirit only. Further, under Rule 370 of the Rules ibid, pass fee of ₹ 12 per Bulk Litre (BL) is leviable on liquor imported into Meghalaya.*

* Ethyl alcohol to which a poisonous substance, such as acetone or methanol, has been added to make it unfit for consumption.

We noticed during test check of the records of the Assistant Commissioner of Excise (ACE), East Khasi Hills, Shillong in May 2010 that M/s Induscreed, Industrial Estate, Shillong, imported 36,000 BL of absolute alcohol[2] between June 2009 and February 2010 for use in the manufacture of drugs and medicines. For import of the aforesaid spirit, three import permits were issued without realisation of import pass fee. Since import pass fee is exempted for the purpose of import of denatured spirit only, the grant of exemption is irregular leading to loss of revenue[3] of ₹ 4.32 lakh.

We reported the case to the ERTS Department in May 2010; reply was awaited (September 2011).

3.9 Non-levy of import pass fee

Rule 370 of the Assam Excise Rules, 1945 (as adapted by the GOM) empowers the State Government to levy import pass fee (IPF) on Indian Made Foreign Liquor (IMFL)/ beer/wine brought into the State from outside the State. The rate of the IPF is ₹ 31.20 per case of beer and ₹ 108 per case of IMFL**.*

* Vide Excise Department Notification dated 25 April 2003
** Vide Excise Department Notification dated 16 March 2007

During test check of records of the Excise Department (ED) in the past, we noticed that the IPF was not being realised on IMFL/ beer/wine imported into the State by defence and paramilitary forces. Mention of this observation was made in the following Comptroller and Auditors General's Audit Reports (ARs).

[2] Alcohol used for medicinal purposes and / or drinking.
[3] 36000 BL @ ₹ 12 per BL = ₹ 4,32,000

(₹ in lakh)

ARs for the year en	Para No.	Loss of revenue
2005-06/	6.9	22.93
2006- 2007	6.14	21.88
2008-2009	4.2.19	61.00
2009- 2010	4.8	52.14
TOTAL		**157.95**

However during scrutiny of the records of the ACE, Shillong and Superintendent of Excise (SE), Nongpoh in April 2010 and September 2010, we noted that the situation remained unchanged. For instance, during April 2009 to March 2010 the ED issued permits to defence and paramilitary forces to import into the State 50,030 cases of IMFL and 9,578 cases of beer on which the IPF of ₹ 57.02 lakh was not realised.

We are of the view that since there is no provision in the Rules *ibid* which exempt defence and paramilitary forces from payment of the IPF or formal executive instructions to this effect, non-levy of the same was erroneous besides resulting in a recurring revenue loss to the public purse. We further ascertained that in Assam, the IPF was being levied on IMFL/beer/wine imported into that State by defence and paramilitary forces.

We recommend that the Department/Government take a considered decision on whether to exempt or levy the IPF on IMFL/beer/wine imported into the State by defence and paramilitary forces. If the decision is to exempt the imports, the Rules *ibid* will then need to be amended accordingly.

We reported the case to the ERTS Department in June 2011; reply was awaited (September 2011).

3.10 Non-realisation of security deposit

Under Rule 246 of the Assam Excise Rules (as adapted by the GOM), an advance deposit pledged as security in favour of the COE, GOM for due observance of the conditions and terms of the licence and ensuring prompt payment of licence fees, shall be deposited by all licencees.

The State Government vide notification dated 03 July 2009 brought all companies manufacturing liquor, under the purview of security deposit for registration of brand labels at rates specified in the notification for sale of liquor within the State.

We noticed during test check of records of the COE in April 2010 that the COE fixed the security deposit payable by different companies on sale of different brands of liquor within the State as prescribed by the GOM as per aforesaid notification. We,

however, noticed that one distillery[4] and 13 companies[5] manufacturing IMFL, wine and beer had not deposited security to the tune of ₹ 25 lakh based on the approved rates. Non-payment of security deposit is fraught with the risk of loss of revenue in case of default in payment of dues by the licencees.

The case was reported to the ERTS Department in May 2010; reply was awaited (September 2011).

[4] NEB Bottling Plant

[5] Radico Khaitan Ltd., Southern Agrifurane India Ltd., IFB Agro India Ltd., Mayell and Fraser (P) Ltd., Tilaknagar India Ltd., Bacardi Martini, Champagne Indage India, Sula Vineyards, Associate Wines, Renaissance Winery, Bacardi Martini, Manav Breweries, Spencers Distilleries and Breweries.

EXECUTIVE SUMMARY

Substantial increase in tax collection	In 2010-11, the collection of taxes from motor vehicles increased by 41 percent over the previous year which was due to increase in registration of vehicles, increase in the enforcement activities and arrear collection.
Internal audit not conducted	Audit of Motor Vehicle Department has never been conducted by the Examiner of Local Accounts. This resultantly had its impact in terms of the weak internal controls in the Department leading to substantial leakage of revenue. It also led to the lapses on the part of the Department remaining undetected till we conducted our audit.
Very low recovery by the Department of observations pointed out by us in 2010-11	During the period 2005-06 to 2009-10, we have pointed out non/short realisation of tax, fees, fines with revenue impact of ₹ 1806.10 crore in 22 cases. Of these, the Department/ Government accepted audit observations in seven cases involving ₹ 1236.43 crore but recovered only ₹ 0.04 crore in one case. The recovery position as compared to acceptance of objection was negligible.
Result of audit conducted by us in 2010	In 2010-11, we test checked the record of five units relating to taxes on motor vehicles and found non/short realisation/levy of tax, fee, fines etc involving ₹ 1.20 crore in 19 cases. The Department accepted non/short realisation/levy of tax and other deficiencies of ₹ 0.59 crore in seven cases. An amount of ₹ 0.13 lakh was recovered in one case.
What we have highlighted in this chapter	In this Chapter, we present illustrative cases of ₹ 0.25 crore selected from observations noticed during our test check of records relating to assessment and collection of motor

	vehicle tax in the office of the Commissioner of Transport, State Transport Authority and District Transport Offices were we found that the provisions of the Act/Rules were not observed. We also present a Performance Audit on "*Computerisation of Motor Vehicle Department*" wherein we have highlighted systemic deficiencies and compliance deficiencies and implementation of VAHAN and SARATHI Application Systems. It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action despite switching over to an IT-enabled system in all the District Transport offices. We are also concerned that though these omissions were apparent from the records which were made available to us, the District Transport Officers were unable to detect these mistakes.
Our conclusion	**The Department needs to improve the internal control system including strengthening of internal audit so that weakness of the system are addressed and omissions of the nature detected by us are avoided in future.** **It also needs to initiate immediate action to recover the non-realisation of tax, fees penalties etc pointed out by us, more so in those cases where it has accepted our contention.**

CHAPTER-IV: MOTOR VEHICLE RECEIPTS

4.1 Tax administration

The Secretary, Transport Department is the head of the Department at the Government level. At the Department level, the Commissioner of Transport (CT) is the administrative in-charge and is responsible for overseeing the functioning of various wings of the Department. The Deputy Commissioner of Transport, who is also the ex-officio secretary, State Transport Authority (STA), assists him. At the district level, the District Transport Officer (DTO), who is also the secretary, Regional Transport Authority (RTA) is responsible for collection of receipts under the provisions of the various acts and rules. The administration of the Department and collection of receipts are regulated by the Motor Vehicles (MV) Act, 1988 and the Assam Motor Vehicles Taxation (AMVT) Act, 1936 (as adopted by the Government of Meghalaya) and various rules made thereunder. In addition, the Department has an Enforcement Branch (EB) headed by a DTO, for enforcement of the rules in force.

4.2 Trend of receipts

Actual receipts of the Transport Department during the years 2006-07 to 2010-11 alongwith the total tax receipts during the same period is exhibited in the following table and graph.

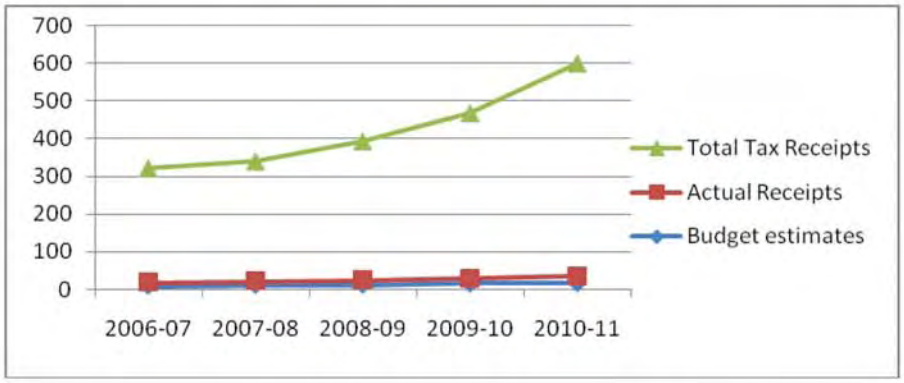
(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-a-vis total tax receipts
2006-07	8.50	9.34	(+) 0.84	10	304.74	3
2007-08	10.56	11.35	(+) 0.79	7	319.10	4
2008-09	11.62	13.21	(+) 1.59	14	369.44	4
2009-10	14.48	13.61	(-) 0.87	6	444.29	3
2010-11	15.64	19.19	(+) 3.55	23	566.07	3

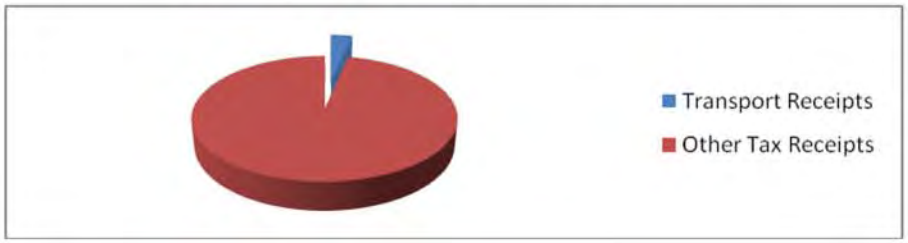
Thus, the percentage variation which was 10 *per cent* in 2006-07 came down to the level of seven *per cent* in 2007-08. After rising to the level of 14 *per cent* in 2008-09, it abruptly went down to (-) six *per cent* in 2009-10 and again jumped to 23 *per cent* in 2010-11.

Motor vehicles receipts formed about 3-4 *per cent* of the total tax receipts of the State during the period 2006-07 to 2010-11.

A line graph of budget estimates, vis-à-vis the actual receipts and total tax receipts of the State may be seen below:



Also a pie chart showing the position of actual transport receipts vis-à-vis the total tax receipts during the year 2010-11 may be seen below:



4.3 Cost of collection

The cost of collection (expenditure incurred on collection) of the Transport Department during the year and the preceding two years is shown below:

Year	Actual revenue (₹ in crore)	Cost of collection (₹ in crore)	Percentage of expenditure on collection	All India average percentage of preceding year
2008-09	13.21	3.14	23.77	2.58
2009-10	13.61	2.80	20.57	2.93
2010-11	19.19	3.55[1]	18.50	3.07

Thus, the cost of collection during all the three years remained well above the all India average percentage. The Government needs to take appropriate measures to bring down the cost of collection.

4.4 Impact of audit reports

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation of taxes, fees and fines, loss of revenue etc, with revenue implication of ₹ 1,642.43 crore in 25 paragraphs. Of these, the Department/Government had accepted audit observations in 7

[1] Department figures

paragraphs involving ₹ 1,236.43 crore and had since recovered ₹ 4 lakh. The details are shown in the following table:

(₹in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	1	714.15	1	708.38	1	0.04
2007-08	3	255.67	2	255.51	-	--
2008-09	7	272.69	3	272.33	-	--
2009-10	8	397.97	1	0.21	-	--
2010-11	6	1.95	1	-	-	-
Total	**25**	**1642.43**	**8**	**1,236.43**	**1**	**0.04**

Thus, against the accepted cases involving ₹ 1,236.43 crore, the Department/ Government has recovered an amount of ₹ 4 lakh which is 0.0032 *per cent*.

We recommend that the department needs to revamp its revenue recovery mechanism to ensure that they could recover at least the amount involved in the accepted cases.

4.5 Results of audit

Test check of the combined registers and other records of 5 units relating to the Transport Department during the year 2010-11 revealed non-realisation of taxes, fees and fines etc., amounting to ₹ 1.20 crore in 22 cases, which can be categorised as under:

(₹in crore)

Sl. No.	Category	Number of cases	Amount
1.	**"Computerisation of Motor Vehicles" (A Performance Audit)**	1	-
2.	Non-imposition of penalty	6	0.22
3.	Non-realisation of fees/duties etc.	3	0.07
4.	Other irregularities	13	0.91
Total		**23**	**1.20**

During the year 2010-11, reply in respect of only one DTO[2] has been received. The observations featured in the Performance Audit have however been accepted by the Department.

A few illustrative audit observations involving ₹ 0.25 crore and a Performance Audit on "*Computerisation in the Motor Vehicles Department*" are mentioned in the succeeding paragraphs.

[2] DTO, Jowai

4.6 Non-compliance of the provisions of the Acts/Rules

The provision of the MV Act, 1988, AMVT Act, 1936 and Rules made thereunder require levy and payment of:

- Penalty for non-renewal of permits.
- Payment of composite fee to the STA.
- Prompt deposit of Government revenue into treasury.
- Non-revision of lumpsum payable by the lessees of weighbridges.

Non-compliance of the provision of the Act/Rules in some cases mentioned in paragraph 4.8 to 4.12 resulted in non/short realisation of ₹ 0.25 crore.

4.7 PERFORMANCE AUDIT ON COMPUTERISATION IN THE MOTOR VEHICLES DEPARTMENT

Highlights

The Performance Audit on **'Computerisation in the Motor Vehicle Department'** revealed the following**:**

➢ We noticed that the Transport Department (TD) had not entered into any annual maintenance contract (AMC) for maintenance and repairing of hardware. Further, 67 *per cent* of the servers, 17 *per cent* of the slim PCs, 55 *per cent* of the printers, and 75 *per cent* of UPS with the Department were not functioning as on 30 August 2011.

(Paragraph 4.7.8.1)

➢ We noticed that out of the seven DTOs, four DTOs had not completed computerisation of backlog records of 12,150 registered vehicles. The backlog of records of 2.07 lakh driving licenses was not cleared in all the seven DTOs. Thus the State and National Registers were incomplete to that extent.

(Paragraph 4.7.8.2, 4.7.10.4)

➢ We noticed that there was no fire detection equipment or fire extinguishers to fight any contingencies, in any of the three DTOs visited and the Office of the STA housing the computer for the National Permit System.

(Paragraph 4.7.8.3)

➢ We noticed that in three DTOs the server were switched on and off on a daily basis, while in one DTO, the server was switched off at varying intervals and on holidays and weekends. The department has not laid down any guidelines laying down the necessity of switching on/off the servers. We also noticed that log files were deleted without conducting any analysis leading to loss of audit trail.

(Paragraph 4.7.8.9)

➢ We noticed that surcharge was not realised from 399 vehicles out of 19,719 private vehicles registered in East Khasi Hill Division. The rates of surcharge could be altered manually as such manual intervention cannot be ruled out due to this.

(Paragraph 4.7.9.1)

➢ The data available in the system indicated that three vehicles shared same registration number, 1,308 vehicles shared 654 registration numbers, 1,277 vehicles shared the same set of engine numbers and 44 vehicles shared 22 chassis numbers. Out of these, 112 vehicles were registered after implementation of Vahan.

(Paragraph 4.7.9.3 and 4.7.9.8)

➢ 190 non-transport (NT) DLs were issued to 55 applicants authorising the licence holder to drive the same class of vehicle. We further noticed that 1,493 DL[3] and 27 LL[4] were issued by recording the name of the licence holder in abbreviation.

(Paragraph 4.7.10.2)

➢ We found abnormal delays ranging from 31 to 183 in issuing 453 learner licences (LL). Similarly, the delay in issuing 1,300 driving licences (DL) ranged from 31 days to 461 days. There was no time limit set for issue of LLs and DLs.

(Paragraph 4.7.10.5)

[3] East Khasi Hills : 1453 DL,Jowai :1 DL and Ri-Bhoi: 39 DL:
[4] East Khasi Hills: 25 LL and Ri-Bhoi:2LL

4.7.1 Introduction

To achieve faster and better services, transparency and better monitoring of revenues generated from implementation of the Motor Vehicle Act and Rules, the Government of India provided standardised softwares 'Vahan' and 'Sarathi', developed by National Informatics Centre (NIC) to the Transport Department (TD), Government of Meghalaya (GOM). The TD was also provided with technical assistance from the NIC, free of charge, for customisation and backend integration.

Consequent upon a new National Permit (NP) composite fee regime becoming effective from 07 May 2010 for national goods carrier vehicles, an electronic system of grant of NP was developed by Ministry of Road Transport and Highways (MoRTH) in consultation with NIC, New Delhi. Access to this software was made available to the State though a National Portal.

4.7.2 Organisational setup

The Principal Secretary to the Government of Meghalaya, Transport Department is the administrative head of the TD. He is assisted by the Commissioner of Transport (CT) who heads the Commissionerate of Transport. The CT is also the ex-officio Secretary of the State Transport Authority (STA) and is assisted by a Assistant Commissioner of Transport. An Enforcement Wing is also attached to the Directorate and is headed by a District Transport Officer (DTO). At the district level, the office is headed by a DTO who is also the ex-officio Secretary, Regional Transport Authority (RTA). There are seven DTOs[5] in the State. The function of the CT is to oversee the functioning of the various wings of the TD and implementation of the Acts and Rules governing the assessment, levy and collection of motor vehicle taxes, fees and fines while the DTO Enforcement Wing is responsible for enforcing the provision of the Acts and Rules. The primary function of the STA is to grant inter-state permits and that of RTA is to grant regional road permits to transport vehicles.

4.7.3 Objectives of the computerisation

At the all India level, the main objectives were:

- to develop a national database by developing and providing a uniform software which could be used by all the States for computerisation of Transport Offices responsible for issuing vehicle registration certificates and driving licences;
- to have common specification for the software, to ensure that documents issued by any State are readable and interoperable throughout the country; and,
- to have interconnectivity amongst DTOs in the State and a National Register of Motor Vehicles.

[5] DTOs East Khasi Hills, West Khasi Hills, Jaintia Hills, Ri Bhoi, West Garo Hills, East Garo Hills and South Garo Hills.

At the State level, the objectives were:

- to bring about transparency in the system;
- to ease and speed up all work related to vehicle registrations and driving licences;
- to connect the entire State using the networking facility;
- to assist in monitoring work related to vehicle registrations and driving licences; and
- to create State Register of vehicles registered and driving licenses issued.

4.7.4 Audit objectives

The audit objectives were to ascertain whether:

- the objectives of computerisation through the NIC developed Information Technology (IT) applications of 'Vahan', 'Sarathi' and 'National Permit System' (NPS) were achieved;
- the phase wise implementation of the two application ('Vahan' and 'Sarathi') were achieved as per time frames fixed;
- computerised systems implemented were complete (module-wise) and data captured by the DTO were correct and complete;
- connectivity was established between the DTOs in the State for creation of State Registers of vehicles and licences and National Registers and Central Servers were put in place towards achievement of above stated objectives;
- reliable controls were in place to ensure data security and audit trail besides back up of data for loss of data/crash of systems; and,
- internal control mechanism was in place at the State level to monitor the implementation of two IT applications.

4.7.5 Audit criteria

The Performance Audit was carried out based on the following criteria:

- Motor Vehicles Act, 1988 (MV Act);
- Central Motor Vehicles Rules, 1989;
- Assam Motor Vehicles Taxation Act, 1936 (as adopted and amended by Meghalaya)
- Assam Motor Vehicles Taxation Rules, 1936 (as adopted and amended by Meghalaya)
- Meghalaya Motor Vehicle Taxation (Amendment) Act 1973,
- Notification issued by the Government of India;
- Notification issued by the State Government
- Circulars issued from time to time
- Motor Vehicle (New High Security Registration Plates) Order, 2001
- Vahan and Sarathi software as developed by NIC.

4.7.6 Scope and methodology of Audit

During 2006-07, we had covered the topic of the implementation of 'Vahan' in DTO, East Khasi Hills and it was featured in Para 6.4 of the Report of the Comptroller and Auditor General of India for the year ending 31 March 2007. The scope of the present IT Audit covers audit of implementation and examination of controls in the 'Vahan', 'Sarathi' and 'NPS' application softwares. Between June 2011 to August 2011, we checked the records of the CT/STA, imported and analysed data upto 31 March 2011 of all the seven DTOs[6] of the State using Idea[7] and MS Excel softwares and also visited three DTOs[8] to verify the original records and ascertain the correctness of the data. vis-à-vis the data captured in the system.

4.7.7 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing the necessary information and records for the Performance Audit on 'Computerisation of the Transport Department'. The entry conference for the Performance Audit was held on 30 May 2011 in which the objectives, scope and methodology of audit were explained. The conference was attended by the CT, ACT, representatives from Finance Department and NIC, Shillong. The draft Performance Audit report was sent to the Government/department on 17 October 2011 for their response. An Exit Conference was held on 20 October 2011 which was attended by the CT, Meghalaya and Scientific Officer from NIC, Shillong in which the results of audit were discussed, wherein the Department accepted all the points raised by audit.

4.7.8 Description of the softwares developed by NIC

Vahan: An application developed by NIC Headquarters ,Delhi for registration of vehicles, collection of taxes, issuing various certificates and permits and recording fitness of vehicles. The software was provided free of charge to the State on 01 April 2002 and customised to suit the local requirement. The 'Vahan' software uses Java as the front-end application programme and Oracle 10G for the backend database. The software captures information about the registered vehicles and its owner such as owner's name, permanent and temporary address, vehicle description such as date of registration, chassis and engine number, type and class of vehicle, etc.

Sarathi: An application developed by NIC Hyderabad, for issue of Learner Licence, Permanent driving licence, conductor's licence and Driving School licence and to collect in each case the amount of fees as applicable. The software was provided free of charge to the State on 01 September 2005 and

[6] East Khasi Hills, West Khasi Hills, Jaintia Hills, Ri Bhoi, West Garo Hills, East Garo Hills and South Garo Hills
[7] Interactive Data Extraction and Analysis
[8] DTOs East Khasi Hills, Jaintia Hills and West Garo Hills

customised to suit the local requirement. The 'Sarathi' software uses Java as the front-end application programme and Oracle 10G for the backend database. The software captures information about the details of licence holders like name, permanent and temporary address, licence number, class of vehicles authorised to drive, validity period of the licence, etc.

National Permit System: In order to implement a new NP composite fee regime, a National Web Portal (NWP) for issue of NP was developed by NIC New Delhi. The server for the portal is placed at New Delhi. The portal enables the applicant to make online transactions from SBI internet banking. The concerned authority after entering details of the vehicles then issues the online permit to the applicant after verification. The user ID and password for the NWP was forwarded to the TD by NIC, New Delhi on 25 June 2010. In Meghalaya the portal was operationalised on 09 February 2011.

4.7.9 Audit findings

Planning and implementation

4.7.9.1 Inadequate planning in management of IT assets

To implement 'Vahan', 'Sarathi' and the 'NPS', GOI, MoRTH, between August 2001 and August 2011 supplied free of cost the following hardware to the TD through NIC, Shillong as shown below:

Description of the hardware/UPS	**CT**	**Secretary, STA**	**Jaintia Hills**	**East Khasi Hills**	**West Khasi Hills**	**East Garo Hills**	**West Garo Hills**	**South Garo Hills**	**Ri Bhoi**	**Total**
No of server system	**1**	**-**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**15**
Functioning	1	-	2	1	1	1	1	1	2	**10**
Not functioning	0	-	0	1	1	1	1	1	0	**5**
%age not functioning	**-**		**-**	**50**	**50**	**50**	**50**	**50**	**100**	**67**
No of slim PC	10	3	6	15	5	5	5	5	5	59
Functioning	10	3	4	10	4	4	5	4	5	**49**
Not functioning	0	0	2	5	1	1	0	1	0	**10**
%age not functioning	**-**	**-**	**33**	**33**	**20**	**20**	**-**	**20**	**-**	**17**
No of DMP Ink jet/laser/MFP/Colour laser printer	4	-	4	6	3	3	3	3	3	29
Functioning	4	-	2	2	1	1	0	1	2	**13**
Not functioning	0	-	2	4	2	2	3	2	1	**16**
%age not functioning	**-**	**-**	**50**	**66**	**66**	**66**	**100**	**66**	**33**	**55**

UPS (10 KVA/5 KVA/3 KVA/2 KVA/1 KVA)	1	-	1	1	1	1	1	1	1	8
Functioning	1	-	0	0	0	0	1	0	0	**2**
Not functioning	0	-	1	1	1	1	0	1	1	**6**
%age not functioning	**-**	**-**	**100**	**100**	**100**	**100**	**-**	**100**	**100**	**75**

(Source: Commissioner of Transport/NIC Shillong)

We noticed that the TD had not entered into any annual maintenance contract (AMC) to repair the hardware in case of its non-functioning. We also noticed that 67 *per cent* of the servers, 17 *per cent* of the slim PCs, 55 *per cent* of the printers, and 75 *per cent* of UPS were not functioning as on 30 August 2011. No action was also taken by the TD to repair or dispose off the defective computers and peripherals.

We recommend that TD take immediate action to repair the defective hardware. Action should also be taken to dispose off non-repairable/ obsolete hardware.

On this being pointed out, the Department accepted the audit observation and stated (October 2011) that necessary action would be taken to enter into an AMC and to dispose off unserviceable/obsolete hardware.

4.7.8.2 Incomplete State Register of Motor Vehicles

Sections 63(1) of the Motor Vehicles Act, 1988 (MV Act) stipulates that each State Government, shall maintain a register to be known as State Register (SR) of Motor Vehicles in respect of Motor Vehicles of the State.

On 07 July 2008, GOI, MoRTH directed the State Government to maintain the SR of Motor Vehicles in the electronic form utilising the 'Vahan' software. During the period from July 2008 to June 2011, the TD established connectivity between the database of all seven DTOs and the State server placed at NIC, Shillong. Data from the database of the DTOs is extracted and stored in the State server thereby establishing the State Consolidated Register (SCR). Information such as name and address of the vehicle owner, fitness and tax paid details, vehicle descriptions, etc. is extracted from the SCR and stored in the SR. Data from the SR is then replicated into the Central server at NIC New Delhi, storing the data for National Registers of Motor Vehicles.

We noticed that 12,150 backlog records of registered vehicles, involving all seven DTOs had not yet been computerised. Thus the State is yet to achieve a completed status of SR of Motor Vehicles.

On this being pointed out, the Department accepted the audit observation and stated (October 2011) that the department is outsourcing the data entry to a private agency with a time frame to complete the work in three months.

4.7.8.3 Implementation of computerisation without secured environmental control in place

We noticed from the record of the Commissionerate that three DTOs offices[9] brought to the notice of the CT between 26 June 2007 and 02 November 2011 that rain water seeps into the computer rooms housing the server and other computer peripherals. This places the system and the users to risk of electrical short circuits, damage of data and hardware. Even though the seepages were reported to the CT by DTO, West Garo Hills over 1 year 10 months back and by the DTO, Jaintia Hills and DTO, Ri Bhoi over 1 year 1 month and 9 months back respectively, necessary repairs had not yet been carried out (August 2011). The DTO wise position along with present status is tabulated below:

Sl	DTO	Date of reporting to CT	Estimated amount for repairs	Present status
1	Jaintia Hills	26/07/10	2,72,500	Proposal for repair sent to the Government on 09/06/11. Sanction awaited.
2	West Garo Hills	08/10/09	8,60,000	Proposal for repair sent to the Government on 04/07/11. Sanction awaited.
3	Ri Bhoi	02/11/10	16,14,150	Estimate of ₹ 16,14,150 received from Meghalaya Government Construction Corporation Ltd. on 11/03/11. Proposal yet to be sent to Government for approval.

We also noticed that there was no fire detection equipment or fire extinguishers to fight any contingencies, in any of the three DTOs visited and the Office of the STA, housing the computer for the NPS.

We recommend that necessary repairs to buildings be urgently carried out and fire extinguishers be placed in all field offices and Office of the STA.

On this being pointed out, the Department accepted (October 2011) the audit observation and stated that action is being taken to repair/renovate the buildings and to install fire extinguishers.

4.7.8.4 Modification/changes made to the system without documentation

Mention was made in Para 6.4.7.3 of the C&AG's Report for the year 2006-07 regarding absence of documentation on changes/modifications and the approval for same carried out in the 'Vahan' software and it was recommended that a well documented change management procedure be put in place. In response the TD stated (February 2008) that action would be taken as per recommendation of audit.

[9] DTOs Jaintia Hills, West Garo Hills and Ri Bhoi

Between 27 February 2008 to 31 March 2011, NIC Shillong carried out 19 modifications of the 'Vahan' software to suit the local requirement. Despite the assurance given earlier, we noticed that no documentation was available to show the authority who had placed the 'request for change' and no acceptance certificate for the changes made was issued by the TD.

We recommend that TD always issue a formal 'request for change/ modification' and document the approval for all changes carried out.

On this being pointed out, the Department accepted (October 2011) the recommendation made by audit.

4.7.8.5 Non-availability of documentation relating to description of Vahan and Sarathi softwares

Mention was made in Para 6.4.9.1 of the C&AG's Report for the year 2006-07 about non maintenance of documents such as the 'user requirement specification' (URS), 'system design documents' (SDD), etc. of 'Vahan'. It was recommended that system documentation and manuals be prepared and maintained. In response the TD stated (February 2008) that action would be taken as per recommendation of audit.

The URS, SDD, data flow diagram, data dictionary, relationship between tables gives the complete description of the system developed and are hence crucial for continuity of the computerisation project. Despite the assurance, we noticed that these documents relating to 'Vahan' and 'Sarathi' were still not maintained. We also noticed that though 'Vahan' has been modified 19 times, no user manuals incorporating all the changes have been developed and circulated to all the users. This makes the application system non-user friendly and thereby leads to improper use and input of incorrect records.

We again recommend that the TD prepare and maintain the system documentation and update the user's manuals from time to time.

On this being pointed out, the Department accepted (October 2011) the recommendation made by audit.

4.7.8.6 Partial utilisation of Vahan

Mention was made in Para 6.4.7.2 of the C&AG's Report for the year 2006-07 regarding non utilisation of 'Permit' and 'Enforcement' modules available in the 'Vahan' software and it was recommended that all the modules of the 'Vahan' software be fully utilised. In response the TD assured (February 2008) that necessary action would be taken as per recommendation made by audit.

Despite the assurance we noticed that the TD is still (August 2011) not utilising the 'Permit', 'Temporary Registration' and 'Enforcement' module/

sub-module and still manually processing and managing information relating to Inter and Intra-State Permits of Tourist/Local Taxi/Maxi Cabs, temporary registration of vehicles, collection of fee for temporary registration and fines collected by the Enforcement Wing.

We also noticed during test check of records that in three DTOs, 597 transport vehicles in West Garo Hills, East Khasi Hills and Jaintia Hills were plying without having their permits renewed. These vehicles were neither declared off-road nor were any reasons recorded for non-renewal of permits and of fine of ₹ 11.94 lakh was not levied.

We recommend that TD start utilising the 'Permit' and 'Temporary Registration' module/sub-module.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that 'Permit' and 'Temporary' modules would be implemented shortly.

Safety and security of Data

4.7.8.7 Absence of a proper password policy for operating the system

Password policy requires that a password should ideally be alpha numeric and of at least eight characters and should be changed at regular intervals to prevent misuse of the system in case the password has been accidentally disclosed. The TD, however, has not yet made any policy for creation of passwords or for ensuring that the users change their password at frequent intervals.

We noticed during test of the 'Vahan' and 'Sarathi' application softwares that no validation exists to ensure minimum length or alpha-numeric combination for the password. As such the system accepts passwords of even one character making it vulnerable to misuse.

During field visits to three DTOs to verify the duration of change of passwords by the users of 'Vahan', we saw that in DTO, East Khasi Hills, 2 users out of 35 users changed their password once during the period from 04 October 2010 to 31 March 2011. The analysis for DTO, Jaintia Hills and DTO, West Garo Hills, for the period covered by the IT Audit could not be carried out as the log files were deleted.

We recommend that TD frame guidelines to ensure users change their password quarterly and also ask NIC to modify the 'Vahan' and 'Sarathi' softwares to ensure that password is of minimum eight characters and alphanumeric.

On this being pointed out, the Department accepted (October 2011) the recommendation made by audit and ensured that guidelines would be framed for the password policy.

4.7.8.8 Absence of proper logical access control to prevent sharing of passwords

Logical access controls in the system should prevent any unauthorised access to the system.

During visit to three DTOs we noticed that access to 'Vahan' and 'Sarathi' servers was through a single administrator's id and password. Thus when the administrator is on leave or not available in the office the same password is used by other users. Because of this situation, the other users (other than the administrator) can easily alter the system date of 'Vahan' and 'Sarathi' and this exposes the softwares to risk of change of date and execution of manipulative transactions which will go unnoticed.

We recommend that TD ask NIC to create additional users who can switch on the system but without the right to change the system date in 'Vahan' and 'Sarathi' servers. We also recommend that TD issue instructions to prevent sharing of passwords.

On this being pointed out, the department accepted (October 2011) the recommendation made and stated that NIC would be asked to create additional users who can switch on the system but without the right to change the system date in 'Vahan' and 'Sarathi' servers.

4.7.8.9 Loss of audit trail

Every time, the 'Vahan' server is switched on, the 'Vahan' software creates a text file called log file and records the actions of the users till the server is not switched off thereby providing an audit trail.

During our visit to the three DTOs, we noticed that in DTO, Jaintia Hills and DTO, West Garo Hills the server were switched on and off on a daily basis, while in DTO, East Khasi Hills, the server was switched off at varying intervals and on holidays and weekends. The Department has not laid down any guidelines laying down the necessity of switching on/off the servers. We also noticed that only partial log files were available in the system as shown below:

Sl	DTO	Period during which 'Vahan' was implemented	Period from which log files were available
1	Jaintia Hills	May 2007	16/06/2011
2	East Khasi Hills	April 2002	04/10/2010
3	West Garo Hills	October 2006	26/08/2011

The log files of the remaining period were deleted without conducting any analysis leading to loss of audit trail.

In view of the above we recommend that:

- The TD should lay down guidelines for switching off the servers daily to ensure creation of a daily log file.
- The log files for one financial year should be preserved till the end of the next financial year, i.e. log files of 2010-11 be retained till 31 March 2012.
- Log files should be analysed to ascertain that (i) users change their password quarterly (ii) unauthorised modification of users' roles has not taken place (iii) system has not been accessed during holidays, etc and report submitted to CT/DTO.
- Log files may be deleted only after obtaining the approval of the CT.

On this being pointed out, the department accepted (October 2011) the recommendation made by audit and stated that log files would be deleted with the permission of the CT/DTO only after analysis is carried out.

4.7.9 Audit observation relating to 'Vahan'

Mapping of business rules

4.7.9.1 Partial mapping of business rule relating to collection of surcharge

As per Section 4A of the Meghalaya Motor Vehicle Taxation (Amendment) Act 1973, a Motor Vehicles surcharge (SC) at the rate of 10 *per cent* of the tax payable shall be charged on all private vehicles.

Although the 'Vahan' software automatically calculates registration fee, road tax and SC based on the key parameters, there also is a provision to change the amount of SC through manual intervention. We noticed that SC was not realised from 399 vehicles out of 26,747 private vehicles registered in four DTOs. The reasons for not collecting the SC was not found on record. Thus, manual intervention cannot be ruled out due to this design deficiency. The position of 'non realisation of SC' of these four DTOs was as under:

DTO	Number of private vehicle from whom SC realisable	Number of private vehicle from whom surcharge realised	Number of private vehicle from whom surcharge not realised
Jaintia Hills	2,132	2,129	3
East Khasi Hills	19,719	19,326	393
West Garo Hills	4,536	4,534	2
South Garo Hills	360	359	1
Total	**26,747**	**26,348**	**399**

This omission to collect SC was not noticed in the other three DTOs[10].

[10] DTO West Khasi Hills, DTO East Garo Hills and DTO Ri Bhoi

We recommend that the SC be realised from the vehicles owners and NIC asked to disable the existing provision that enables manually entering the SC amount.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that necessary instructions would be issued to all concerned DTOs for realisation of the surcharge.

4.7.9.2 Non-mapping of provision for calculating penalty for delayed registration

Section 43 of the MV Act stipulates that the owner of a motor vehicle may apply to the registering authority to have the vehicle temporarily registered with a validity period of one month only and shall not be renewable. Contravening the provision of the Act attracts a minimum penalty of ₹ 100 under section 177 of the MV Act.

In Meghalaya, the dealers register the vehicles temporarily for a period of 30 days prior to delivery of vehicles to the purchaser. During test of 'Vahan' software, we noticed that the system registers vehicles even after a period of 30 days from the date of purchase without red flagging a data entry wherever a vehicle is being registered late. The system also does not auto-calculate the penalty applicable for delayed registration as per the provision of the MV Act. The system only provides for manual entry of the penalty amount thus making the application of penalty discretionary.

After implementation of 'Vahan' software, out of 23,659 vehicles registered late in seven DTOs, 16,337 vehicles were registered by charging penalty and the remaining 7,322 vehicles were registered without charging penalty for delayed registration. The DTO wise position is as under:

Sl No	DTO	No of vehicles registered after 30 days	No of vehicles from whom penalty realised for delayed registration	No of vehicles registered without charging penalty for delayed registration
1	Jaintia Hills	1,696	364	1,332
2	East Khasi Hills	8,802	4,046	4,756
3	West Khasi Hills	830	767	63
4	East Garo Hills	5	5	0
5	West Garo Hills	5,333	4,937	396
6	South Garo Hills	4,995	4,943	52
7	Ri Bhoi	1,998	1275	723
	Total	**23,659**	**16,337**	**7,322**

We recommend that TD ask NIC to build in an alert mechanism in cases where vehicles are registered late.

On this being pointed out, the Department accepted (October 2011) the audit observation and stated that the issue of building an alert mechanism in case where vehicle is being registered late would be looked into.

4.7.9.3 Inadequate validation resulting in same registration number being assigned to vehicles registered in different DTOs

Under sub-section 6 of Section 41 of MV Act, a registered vehicle is assigned a unique registration number which serves as a distinguishing mark for the vehicle.

During analysis of data of 'Vahan' we noticed that 1,311 vehicles[11] of different make were assigned 655 registered numbers. While 3 vehicles shared a same registration number, 1,308 vehicles shared 654 registration numbers. Out of these 1311 vehicles, 488 vehicles sharing 244 registration numbers were of different vehicle make. E.g. while one vehicle having registration number say 'ML0NX NNN1' is a 'Two wheeler' another is a 'Truck'. Similarly while another vehicle having registration number say 'ML0NX NNN2' is a 'Jeep' another is a 'Maruti 800'. Out of these 1,311 vehicles, 1199 vehicles were registered before implementation of Vahan and 112 vehicles were registered after implementation of Vahan.

Issue of same registration number to another vehicle is a violation of the provision of the Act.

We recommend that all cases of duplicate registration numbers be investigated and rectified.

On this being pointed out, the Department accepted (October 2011) the audit observation and stated that necessary action would be taken to prevent reoccurrence of similar error and duplicate registration numbers would be rectified.

4.7.9.4 Non-mapping of jurisdiction of the registering authority into 'Vahan' software

Section 40 of the MV Act requires every owner of a motor vehicle to register his vehicle in the jurisdiction of the registering authority where he has the residence or place of business where the vehicle is normally kept. Thus, as per the provision of the Act, the DTOs are responsible to process only those applications for registering the vehicles whose owner's residence or place of business fall under their jurisdiction.

We noticed that even though the 'Vahan' software captures the temporary and permanent address including pincode number of the vehicle owner, it does not have an in-built mechanism to ensure that the temporary or permanent address of the vehicle owner falls under the jurisdiction of the registering authority. The system permits vehicle owners residing any where to register their vehicle in any of the DTOs.

[11] Vehicles with same Registration number but different Chassis.

We noticed from analysis of the data that out of 1,47,988 vehicles registered within the State, the temporary and permanent address of 5,736 vehicle owners were from places outside the jurisdiction of the registering DTO and 9,002 vehicles were from outside the State of Meghalaya.

DTO	Number of registered vehicle	Number of vehicle from different district of the State	Number of vehicle from outside the State
Jaintia Hills	16,075	453	289
East Khasi Hills	79,330	1,315	6,979
West Khasi Hills	4,884	368	8
East Garo Hills	2,313	703	464
West Garo Hills	22,805	812	1,101
South Garo Hills	8,958	371	40
Ri Bhoi	13,623	1,714	121
Total	**1,47,988**	**5,736**	**9,002**

Thus a total of 14,738[12] vehicles were registered in violation of the provision of the Act.

We recommend that TD ask NIC to build a validation check to restrict registration of vehicles whose address does not fall in the jurisdiction of respective DTO.

On this being pointed out, the Department accepted (October 2011) the recommendation made by audit.

4.7.9.5 Non-generation of the letters 'ML' by the system while registering the vehicles in the State

As per sub-section 6 of Section 41 of the MV Act, a registration number consists of a group of letters followed by such letters and figures as are allotted to the State by the Central Government. The Central Government has allotted to the State of Meghalaya the letters 'ML' for use as registration number.

We noticed during test of the 'Vahan' software that, the software does not automatically generate the letters 'ML' assigned to the State and requires the user to input the same. Analysis of data, revealed that between 10 October 1983 to 29 January 2010, 215 vehicles were assigned incorrect registration numbers such as 'M09', 'M10', 'JML', "KML', 'AP09V', 'MNL', 'MP', etc. These have not yet been corrected. The DTO-wise position was as under:

Sl No	DTO	Number of registered vehicle	Number of vehicles with wrong registration mark
1	Jaintia Hills	16,075	30

[12] 5,736 + 9,002 = 14,738

2	East Khasi Hills	79,330	18
3	West Khasi Hills	4,884	13
4	East Garo Hills	2,313	10
5	West Garo Hills	22,805	52
6	South Garo Hills	8,958	57
7	Ri Bhoi	13,623	35
	Total	**1,47,988**	**215**

Thus the numbers were wrongly lying in the database thereby affecting the correctness of the State Register of registered vehicles

We recommend that the wrong registration numbers be rectified and NIC be asked to update the 'Vahan' software so as to generate the letters 'ML' automatically while assigning registration numbers.

On this being pointed out, the Department accepted (October 2011) the audit observation and stated that rectification of the incorrect data would also be carried out. NIC stated that validation is being put in place to ensure that only the letter 'ML' is entered during data entry.

4.7.9.6 Non-capturing of fitness certificate at the time of registration of new vehicles by the system.

Under the provision of the Section 56 of the MV Act, a transport vehicle shall not be deemed to be validly registered for the purpose of Section 39 of the Act, unless it carries a certificate of fitness issued by the prescribed authority.

We noticed that although the vehicle owner submits the certificate of fitness along with the application for registering the vehicle, the 'Vahan' system, however, registers a vehicle even without capturing the mandatory information of fitness. As a result, out of 77,761 vehicles registered in the State after implementation of 'Vahan', the fitness information was not captured in 6,881 cases. The DTO-wise position was as under:

Sl No.	DTO	No. of vehicles registered after implementation of 'Vahan'	No. of vehicles where fitness has not been captured
1.	Jaintia Hills	6,962	349
2.	East Khasi Hills	44,786	92
3.	West Khasi Hills	1,868	3
4.	East Garo Hills	12	0
5.	West Garo Hills	11,958	13
6.	South Garo Hills	6,873	6,279
7.	Ri Bhoi	5,302	145
	Total	**77,761**	**6,881**

We recommend that TD ask NIC to update the system to make input of data of fitness mandatory while registering vehicles in the State.

On this being pointed out, NIC stated that private vehicles does not require fitness certificate. The reply of the NIC was not correct as fitness certificate

are necessary for private vehicles also at the time of registration. The Department, however, accepted (October 2011) the audit observation and stated that NIC would be asked to modify the system to as to make input of data of fitness mandatory.

4.7.9.7 Non-capturing of essential information of vehicles by the system

As per the MV Act, tax is levied based on parameters like laden and unladen weight in respect of private motor cars, motorcycles etc., seating capacity in case of passenger vehicles like stage carriages and contract carriages and laden weight in the case of goods vehicles. Correct and complete personal information of the vehicle owner will enable the DTOs to issue demand notices to defaulting vehicle owners for realisation of outstanding dues expeditiously.

Our data analysis of 'Vahan' of the seven DTOs revealed that data entries of certain key fields were not done at the time of registration as these were not mandatory fields. The incomplete key fields noticed during analysis is summarised below:

Particulars	Vehicles registered prior to implementation of 'Vahan' and data entered in backlog mode	Vehicles registered after implementation of 'Vahan'
Seating capacity left blank	558	511
Unladen weight left blank	6055	753
Owner's name in abbreviation	444	318
Owner's name blank	727	4
Chassis number not mentioned	4	14
Engine number not mentioned	682	599

Registration of vehicles without complete data entry of key fields indicated deficiency in input controls and lack of monitoring.

We recommend that NIC update the software to make data entry mandatory of all fields at the time of registration. TD should also ensure that data entry is regularly monitored. On this being pointed out, NIC stated that the Vahan application would be re-visited to prevent such cases. Further the department accepted (October 2011) the audit recommendation to make data entry mandatory of all fields at the time of registration.

Data accuracy

4.7.9.8 Inaccuracies noticed in data of engine/chassis number

Mention was made in Para 6.4.8.1 of the C&AG's Report for the year 2006-07 regarding lack of validation controls in 'Vahan' to prevent entry of duplicate engine/chassis number and it was recommended that validation controls be put in place to prevent such duplication. In response the TD assured (February 2008) that necessary action would be taken as recommended by audit.

Despite assurance, we noticed (July 2011) validation check was provided only to prevent entry of duplicate chassis number and no validation check was provided to prevent entry of duplicate engine number. Analysis of data of the seven DTOs revealed that 1,277 vehicles shared the same set of engine numbers[13]. 601 engine numbers were shared by 1,202 vehicles, 14 engine numbers were shared by 42 vehicles, 3 engine numbers by 12 vehicles, 3 engine numbers by 15 vehicles and one engine number by 6 vehicles. After this was pointed out, NIC stated that the application software has been rectified and duplicate chassis number ids are no longer allowed to be entered. However we found that even with the validation control for 'chassis number', six out of seven DTOs had a total of 44 vehicles sharing 22 chassis numbers. The DTO-wise position of vehicles sharing more than one chassis and engine number is shown in the table below

DTO	Number of set of engine numbers	Vehicles sharing the same engine number	Number of set of chassis number	Vehicles sharing the same chassis number
East Khasi Hills	257	527	3	6
West Khasi Hills	50	102	5	10
Jaintia Hills	73	151	3	6
Ri Bhoi	108	219	4	8
South Garo Hills	90	190	1	2
West Garo Hills	42	84	6	12
East Garo Hills	2	4	-	-
Total	**622**	**1,277**	**22**	**44**

Further, as the project has been implemented as stand-alone package in all the seven DTOs without linking them to a common database, analysis of the consolidated data of all seven DTOs revealed that 1,318 vehicles registered across the State shared 654 chassis numbers 2 to 3 times. Similarly, 2,413 vehicles registered across the State shared 1,178 engine numbers 2 to 6 times. Thus due to absence of a common database, the purpose of having the validation check to prevent entry of vehicles with duplicate chassis or engine numbers stood defeated. Moreover, as the data had been uploaded into the State and National Registers, the vehicles with duplicate chassis and engine numbers are also stored in these registers.

[13] *i.e.* same engine number was recorded on more than one vehicle.

To ascertain the reason for vehicles sharing the same chassis/engine number, 161 original vehicles records from 3 DTOs were called for out of which records of 86 vehicles were produced to audit. We noticed that the duplication arose as 15 no objection certificates (NOCs) (14 manually and one from the system) were issued from one DTO office to the other, but the information was not entered in the system by the NOC issuing office, and hence still retained in the table containing the list of active registered vehicles. Moreover out of these 15 NOCs, even though 'Vahan' was implemented, 14 NOCs were issued manually for no recorded reason. Further, in 20 and 24 cases, the vehicles shared the same chassis and engine number respectively resulting in duplication of chassis and engine number. In these DTOs, chassis and engine number were incorrectly entered in 9 and 18 cases respectively

We recommend that TD investigate and rectify all cases of duplicate engine/chassis numbers and ask NIC to:

- build validation control for duplicate engine number also;
- revisit the existing validation control for chassis number to detect all duplicate chassis numbers and
- upgrade 'Vahan' to provide linkages amongst the DTOs to detect and prevent entry of duplicate chassis/engine numbers.

On this being pointed out, the NIC stated that the validation control would be reviewed in due course, as regards the linkages with the DTOs the same cannot be done at the moment due to connectivity problem. Further the department accepted the audit recommendation and stated (October 2011) that reasons for issuing NOCs manually would be ascertained.

4.7.9.9 Incorrect depiction of registration of a vehicle in more than one DTO

Under Section 49 of the MV Act, if the owner of a registered vehicle changes his place of residence or business, he has to apply for change of address in the Registration Certificate to the new Registering Authority in whose jurisdiction his new address falls and after effecting the change of address the new Registering Authority is to communicate the altered address to the original Registering Authority who then deletes the registered vehicle from his database.

The adequacy of validation controls in the 'Vahan' software to prevent duplicate entry of registration numbers was checked. Tests revealed that the software had a validation check in the system to prevent entry of a duplicate registration number. However, as the seven DTO offices of the TD have been computerised with a stand alone database and not linked to a common database, the validation put in place had not completely addressed the problem of having duplicate registration number amongst the different DTO offices of the State.

During analysis of data of 'Vahan' we noticed that 546 vehicles[14] were registered with two to three DTOs with same registration number. While four vehicles with same registration number were registered with three DTOs, 542 vehicles with same registration number were registered with two DTOs. As a result of the multiple registration, the combine database of the DTOs depict existence of 1,096 vehicles sharing 546 registration numbers. Out of these 1,096 vehicles, 949 vehicles were registered before implementation of vahan and 147 vehicles were registered after implementation of vahan.

To ascertain the reason for same vehicle being registered with different DTOs, 19 original vehicles records from 3 DTOs were called for out of which records of 15 vehicles were produced to audit. We noticed from these records that in all 15 cases NOCs were issued from one DTO to other DTO, but the fact was not captured in the system of the NOC issuing office. As a result, the same vehicle was being shown as an active registered vehicle in the databases of both the DTOs.

We recommend that details of NOCs issued be entered into the system and all cases of duplicate registration numbers be investigated and rectified. We also recommend that TD explore the feasibility of linking the data of all DTOs to a common database to avoid issue of duplicate registration number.

On this being pointed out, the Department accepted (October 2011) the audit recommendation and stated that details of NOCs issued would be entered into the system and all cases of duplicate registration numbers would be investigated and rectified.

4.7.9.10 Registration of vehicles on Sundays/national holidays

Mention was made in Para 6.4.8.4 of the C&AG's Report for the year 2006-07 regarding registration of vehicles on Sundays, Republic day, Independence day, Gandhi Jayanti and on Christmas day and it was recommended that date of registration be generated from the system to prevent entry of incorrect date. In response the TD assured (February 2008) that necessary action would be taken to correct the anomalies.

We noticed that validation check was provided on 27 February 2008 to prevent registration of vehicles on Sundays and National holidays. Despite the validation we noticed that in DTO, Ri Bhoi two vehicles were registered on Sunday and in DTO, South Garo Hills one vehicle was registered on Christmas day. No validation was provided to prevent registration of vehicles on Saturdays.

We also noticed that prior to building in the validation, the database of 'Vahan' contains 4,371 records of vehicles registered on Saturdays, Sundays

[14] Vehicles having same registration and chassis numbers.

and National Holidays. Despite the assurance of the TD in February 2008, these have not yet been rectified. The DTO wise position was as under:

DTO	Saturdays	Sunday	Republic day	Independence day	Gandhi Jayanti	Christmas
Jaintia Hills	551	0	0	0	2	0
East Khasi Hills	2535	248	1	6	6	4
West Khasi Hills	92	44	0	1	2	2
East Garo Hills	7	37	0	0	2	0
West Garo Hills	317	0	0	0	0	0
South Garo Hills	159	22	2	0	2	3
Ri Bhoi	267	58	0	0	1	0
Total	**3928**	**409**	**3**	**7**	**15**	**9**

The Department needs to verify the date of registration with respect to the original records to ascertain as to why vehicles were registered on holidays.

In view of the above, we recommend that the validation check built in to prevent registration of vehicles on Sundays and National Holidays be revisited and validation check also be built to restrict registration of vehicles on Saturdays.

On this being pointed out, the Department accepted (October 2011) the audit observation and stated that holiday list would be fed into the system to prevent registration of vehicles on holidays.

4.7.9.11 Inaccurate and unusual data

Mention was made in Para 6.4.8.5 of the C&AG's Report for the year 2006-07 regarding unusual and inaccurate data and it was recommended that appropriate input and processing controls with validation check be urgently incorporated within the system to prevent entry of incorrect data. In response the TD assured (February 2008) that appropriate action will be taken to rectify the errors.

Despite assurance, data analysis of 'Vahan' of the seven DTOs revealed the following:

- In the previous Audit Report, 1,748 cases of vehicles registered prior to the date of purchase was pointed out. Despite assurance we noticed that the database of DTO East Khasi Hills has not been corrected and we found that 1,482 vehicles were shown to have been registered 1 day to 40 years 9 months prior to the date of purchase.
- After implementation of 'Vahan', the fitness of 202 private vehicles was shown to be valid for more than 15 years[15], in violation of the MV Act. In seven cases (ML10 9820, ML10 9029, ML08B 9029, ML08B 4221, ML06 3406, ML08B 6021, ML08 5197) the fitness of the

[15] The fitness certificate of a private vehicles is valid for a period of fifteen years.

vehicle have been shown to be valid upto 91 to 1016 years from the date of registration.

- Seating capacity of vehicles was incorrectly entered. For example, seating capacity of Auto Rickshaw was entered as 7 to 10 and 50 seater, Maruti 800 as 8 to 11 seater, Jeep as 11 to 15 seater, Scooter as 0 and 6 seater, Tata LPT 909 Turbo Truck as 31 to 40 seater, Bus as 2 to 8 seater, etc.

These data entry errors need to be checked by proper supervision which did not exist at present.

We recommend that TD ask NIC to incorporate validation checks in 'Vahan' to prevent entry of incorrect data and rectify all incorrect data.

On this being pointed out, the department accepted (October 2011) the audit recommendation and stated that instruction would be issued to NIC for incorporating the validation checks.

4.7.9.12 Incomplete data of stolen vehicles

As per Section 62 of the MV Act, the State Government may if it thinks necessary, direct the Police Department (PD) to furnish returns regarding vehicles which have been stolen and stolen vehicles which have been recovered to the TD.

We noticed that the TD had not yet directed the PD to furnish the above returns. The TD also stated that the theft report module available in the 'Vahan' software was not being utilised.

During analysis of data, we, however, noticed that during the years 2006 to 2010, information of five stolen vehicles were captured in the system contradicting the reply of the TD.

Further, as per statistics of the PD, during the years 2006 to 2010, 692 vehicles were stolen across the State and 125 vehicles were recovered. The position of vehicles stolen and vehicles recovered in the State is shown in the table below:

Year	Motor Cycle/Scooter etc.		Motor Car/Taxi/Jeep		Other Motor Vehicles		Total	
	No. of vehicles stolen	No. of vehicles recovered	No. of vehicles stolen	No. of vehicles recovered	No. of vehicles stolen	No. of vehicles recovered	No. of vehicles stolen	No. of vehicles recovered
2006	56	9	66	6	13	5	135	20
2007	33	4	15	3	45	2	93	9
2008	32	7	53	13	47	7	132	27
2009	22	8	59	12	99	7	180	27
2010	10	2	43	19	99	21	152	42
Total	**153**	**30**	**236**	**53**	**303**	**42**	**692**	**125**

Source: http://meghpol.nic.in/Crime_Statistics/proplost_8.htm

Failure to ask for the returns has resulted in DTOs having no information about 562[16] stolen vehicles and is fraught with risk of subsequent re-registration in other DTOs.

We recommend that TD ask the PD to furnish returns regarding vehicles stolen and stolen vehicles recovered at least monthly and also explore the possibility of linking the Vahan system with the PD to detect and prevent registration of stolen vehicles in the State.

On this being pointed out, the department accepted (October 2011) the audit recommendation and stated that matter would be taken up with the Police Department for furnishing returns regarding vehicles stolen and stolen vehicles recovered.

4.7.9.13 Lack of control in the application software to prevent issue of NOCs with same reference numbers

As per Section 47 of the MV Act, for assignment of new registration number on removal of the vehicle to another State, the owner of the vehicle amongst other things is to apply for a new registration number along with the NOC issued by the registering authority where the vehicle was originally registered.

The 'Vahan' software has the provision to issue a 'NOC' with a system generated reference number (despatch number) or cancel an 'issued NOC' on request of the vehicle owner. On issue of the NOC, the data relating to the registered vehicle is removed from list of registered vehicles and preserved in a list of 'NOC issued vehicles'. Subsequently on cancellation of an 'issued NOC', the data is reverted back to the list of registered vehicles.

We noticed during analysis of data that after implementation of 'Vahan', from 16 December 2005 to 31 March 2011, seven DTOs issued 1,874 NOCs through the system. Even though the NOC reference number was generated through the system, we noticed that 271 NOC numbers were generated 2 to 18 times and shown to have been issued to 1,874 vehicles, indicating lack of control in the application software to prevent generation of same NOC's reference number. The DTO-wise position is as under:

DTO	Period to which NOC issued relate	No. of vehicles to whom NOC issued	NOCs with same NOC reference No	Range of duplicate NOC reference no issued
Jaintia Hills	17/09/09 to 30/03/11	170	23	2 to 10
East Khasi Hills	16/12/05 to 31/03/11	1,213	145	2 to 18
West Khasi Hills	20/01/10 to 22/02/11	22	5	2 to 6
East Garo Hills	-	-	-	-
West Garo Hills	10/09/09 to 14/03/11	165	44	2 to 14
South Garo Hills	09/11/10 to 09/12/10	3	1	2
Ri Bhoi	11/10/07 to 22/03/11	301	53	2 to 11
Total		**1,874**	**271**	

[16] 692 – (125 – 5) = 562

Further, out of 1,874 vehicles to whom NOCs were issued, the NOCs of 17 vehicles were subsequently cancelled by four DTOs. However the data relating to these 17 registered vehicles were not reverted back to the list of registered vehicles and still preserved in a list of NOC issued vehicles. Thus, by removing these vehicles from the table storing the list of registered vehicles, these vehicles will not show up as defaulters, in case of non-payment of tax and other violations. The details of these vehicles are shown below:

DTO	No. of NOC cancelled and removed from list of registered vehicles	Vehicle registration No.	Date of NOC	Date of cancellation of NOC
East Khasi Hills	9	ML05B 7257	26/10/2010	01/11/2010
		ML05E 9791	09/09/2009	05/10/2009
		ML05D 2665	29/04/2010	30/09/2010
		ML05E 4177	19/12/2008	18/03/2011
		ML05E 6621	27/09/2010	13/12/2010
		ML05F 4112	24/08/2009	22/12/2010
		ML05E 1189	09/02/2011	10/02/2011
		ML05D 4121	04/01/2011	15/03/2011
		ML05F 1194	06/04/2009	04/03/2011
West Khasi Hills	3	ML06 2836	25/03/2011	31/03/2011
		ML06 1318	30/03/2011	31/03/2011
		ML06 2480	04/05/2011	04/05/2011
West Garo Hills	2	ML08 0828	25/01/2011	25/01/2011
		ML08 9441	17/02/2010	02/12/2010
Ri Bhoi	3	ML10 8079	12/04/2010	04/11/2010
		ML10A 4650	08/04/2011	13/04/2011
		ML10A 4651	04/04/2011	13/04/2011

The reasons for issuing multiple NOC with the same dispatch number and non reversion of data of vehicle on cancellation of NOCs into the list of registered vehicles need to be analysed and prevented.

We recommend that the TD ask NIC to modify the system to ensure reversion of data of cancelled NOCs to the list of registered vehicles.

On this being pointed out, the department accepted (October 2011) the audit observation and stated that the reason for the system issuing NOC with same reference number would be re-verified.

Issues relating to the Vahan software

4.7.9.14 Status of computerisation of vehicles registered in the State

As on 31 March 2011, records of 1,47,988 registered vehicles have been computerised through the 'Vahan' software. The status of DTO-wise records is as under:

Sl No.	DTO	Details of records of vehicles computerised under 'Vahan'
1	Jaintia Hills	16,075
2	East Khasi Hills	79,330
3	West Khasi Hills	4,884
4	East Garo Hills	2,313
5	West Garo Hills	22,805
6	South Garo Hills	8,958
7	Ri Bhoi	13,623
Total		**1,47,988**

We noticed that as on 30 August 2011, out of seven DTOs, four DTOs (Jaintia Hills, West Garo Hills, South Garo Hills and Ri Bhoi) have still to complete computerisation of backlog records. Analysis showed that, from the date of commencement of data entry of backlog records to 30 June 2011, these four DTOs have been computerising between 6 to 10 records of registered vehicles per day. At the current pace of data entry, the two DTOs, Jaintia Hills and South Garo Hills, would further require 19 months to 33 months to computerise all their backlog records.

The date of commencement of backlog entry, pace of computerisation and further projected time required to computerise backlog records in the four DTOs is shown in the table below:

DTO	Date of implem ent-tation of 'Vahan'	Computerisation of backlog data through 'Vahan' software					Further projected time required to compute-rised at current pace
		Date of commenc ement of backlog entry	No of days upto 30/06/11	Backlog data computer ised upto 30/06/11	Avg rate of compute risation per day	Records pending computer isation	
Jaintia Hills	07/05/07	09/07/07	1,452	11,250	8	8,000	19 months
West Garo Hills	11/10/06	10/12/06	1,663	16,602	10	150	15 days
South Garo Hills	09/11/06	11/01/07	1,631	9,268	6	3,700	33 months
Ri Bhoi	27/02/07	29/04/07	1,523	10,412	7	300	43 days
Total				**55,122**		**12,150**	

Thus in view of the above the entry of backlog records in the system need to be done at a faster pace. We recommended that TD may outsource backlog of data entry to a private agency.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that the department is outsourcing the data entry to a private agency with a time frame to complete the work in three months.

4.7.9.15 Starting of fresh series of registration numbers without exhausting ongoing series

Mention was made in Para 6.4.8.12 of the C&AG's Report for the year 2006-07 regarding commencement of next series of registration numbers without exhausting the ongoing series in DTO, East Khasi Hills and it was recommended that TD take steps to ensure methodical and systematic allotment of registration numbers. In response the TD assured (February 2008) that necessary action would be taken as recommended.

Even after assurance, we noticed that in all seven DTOs, allotment of registration numbers of subsequent series was started before exhausting the registration numbers of the ongoing series. Out of 99,990 registration numbers available, the seven DTOs allotted 69,524 (70 per cent) and failed to utilise 30,466 (30 *per cent*) of the registration numbers. Alloting registration numbers from a fresh series, without exhausting the numbers of the ongoing series, points towards improper management of registration of vehicles besides possibility of misuse of unallotted numbers.

In DTO, West Garo Hills, ML08E 0079 was assigned to a vehicle on 22 February 2005 even though ML08A series was still not exhausted. As on 31 March 2011, the DTO, West Garo Hills, has not yet exhausted the 'ML08B' also.

The registration numbers not allotted in the seven DTO offices was as under:

Sl No	Series	Total number utilised in the series	Number of registration numbers not allotted from the series
1	ML04	7523	2476
2	ML05	6584	3415
3	ML05F[17]	9839	160
4	ML05G	9940	59
5	ML06	4054	5945
6	ML07	2395	7604
7	ML08	4486	5513
8	ML08A	9234	765
9	ML09	6752	3247
10	ML10	8717	1282
	Total		**30,466**

[17] Series ML05 A to E covered in Para 6.4.8.12 of the C&AG's Report for the year 2006-07.

We found that the system has options for generation of registration numbers either automatically through the system or manual entry of registration numbers. The use of manual system has led to starting of fresh series of registration numbers without exhausting ongoing series

We recommend that the DTOs start the next series only after exhausting all the numbers of the ongoing series.

On this being pointed out, the department accepted (October 2011) the audit observation and stated that all numbers of the ongoing series would be exhausted and that a system of issuing 'choice number' for a fee will be introduced.

4.7.9.16 System deficiencies in management information system (MIS) of vahan

During test of 'Vahan' software, we noticed the following deficiencies:

- **Deficiency in format of receipts:** The receipt generated through the 'Vahan' software clubs the amount paid for road tax, surcharge and penalty for late registration under the nomenclature 'Road Tax'. This does not give a true picture of the amount charged from the holder of the receipt. Hence the format need to be modified.
- **Partial mapping of laser code number of the vehicle into the Vahan system**: As per clause 4(v) of the Motor Vehicle (New High Security Registration Plates) Order, 2001, implemented in the State with effect from 11 August 2006, a permanent identification number of minimum 7 digits is to be laser branded into the high security registration plates (HSRP) of every vehicle. Two permanent identification numbers, called the 'laser code', is branded into the front and rear number plate of a vehicle. We, however, noticed that the 'Vahan' software has only one field to capture the laser code number.

On this being pointed out, the department accepted (October 2011) the audit observation and also stated that necessary action would be taken to capture both the front and rear laser code number.

4.7.9.17 Data showing plying of transport vehicles without fitness certificate

Mention was made in Para 6.4.8.11 of the CAG's Report for the year 2006-07 regarding non renewal of certificate of fitness by transport vehicle owners and it was recommended that exception reports be generated at regular intervals to identify vehicles violating the MV Act and Rules. In response the TD assured (February 2008) that the matter will be pursued to ensure that all defaulting vehicle owners renew their fitness certificates and pay penalty for non renewal of fitness certificate.

Despite assurance, we noticed that out of 41,901 transport vehicles, fitness certificates of 23,379 (56 per cent) transport vehicles had expired and were not shown to have been renewed in the system. The DTO-wise position is as under:

Sl No	DTO	No of transport vehicles	No of transport vehicles whose fitness have expired
1.	Jaintia Hills	7,417	4,729
2.	East Khasi Hills[18]	17,990	9,581
3.	West Khasi Hills	3,386	2,255
4.	East Garo Hills	419	419
5.	West Garo Hills	5,763	2,645
6.	South Garo Hills	1,380	640
7.	Ri Bhoi	5,546	3,110
	Total	**41,901**	**23,379**

There was no documentary evidence to show that the information was supplied to enforcement staff to utilise the information to detect vehicles plying on roads with valid fitness certificates in violation of the MV Act.

We recommend that TD's enforcement wing utilise the information available in 'Vahan' to detect and penalise vehicles plying without valid fitness certificates.

On this being pointed out, the department accepted (October 2011) the audit recommendation.

4.7.10 Audit observation relating to the 'Sarathi' software

4.7.10.1 Incomplete State Register of Driving Licences

Section 26 of the Motor Vehicles Act, 1988 (MV Act) stipulates that each State Government, shall maintain a register to be known as the State Register (SR) of Driving Licences in respect of driving licences issued and renewed by the licensing authorities of the State.

On 07 July 2008, GOI, MoRTH directed the State Government to maintain the SR of Driving Licences in the electronic form utilising the 'Sarathi' software. During the period from July 2008 to June 2011, the TD established connectivity between the database of all seven DTOs and the State server placed at NIC, Shillong. Data from the database of the DTOs is extracted and stored in the State server thereby establishing the State Consolidated Register (SCR). Information such as license holder's name, address, license number, date of issue/renewal of license, date of expiry of licence, class or type of vehicle authorised to drive, etc. is extracted from the SCR and stored in the

[18] Non-renewal of fitness certificate of 9829 vehicles was pointed out in the C&AG's Report for the year 2006-07

SR. Data from the SR is then replicated into the Central server at NIC New Delhi, storing the data for National Registers of Driving Licences.

We noticed that 2,07,573 backlog records of DLs, involving all seven DTOs had not yet been computerised. Thus the State is yet to achieve a completed status of SR of Driving Licences.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that the department is outsourcing the data entry to a private agency with a time frame to complete the work in three months.

Mapping of business rules

4.7.10.2 Inadequate mapping of business rule led to issue of dual licences

In order to prevent issue of two licences for the same class of vehicle to one applicant, the 'Sarathi' software has a validation check to prevent processing of application for second licence by detecting the name of the applicant and his/her father's/husband's name from the data available in the system.

Test of the 'Sarathi' software revealed that the validation could be easily bypassed by entering the name of the father/husband in an abbreviated form.

Analysis of the data showed that between 20 August 1980 to 14 March 2011, 190 non-transport (NT) DLs were issued to 55 applicants authorising the licence holder to drive the same class of vehicle. The applicants were issued the second licences by entering the father/husband's name in an abbreviated form or by more than one DTO office.

We further noticed that 1,493 DL[19] and 27 LL[20] were issued by recording the name of the licence holder in abbreviation.

We recommend that TD issue instructions to ensure that the name of the applicant and father/husband of the applicant is entered in the system in full form.

On this being pointed out, the department accepted (October 2011) the audit findings and stated that necessary action would be taken to cancel one of the dual licence issued.

[19] East Khasi Hills : 1453 DL,Jowai :1 DL and Ri-Bhoi: 39 DL:
[20] East Khasi Hills: 25 LL and Ri-Bhoi:2LL

Data accuracy

4.7.10.3 Verification of Learner Licenses (LL) applications

To ascertain the accuracy of data captured in 'Sarathi', 390 applications for LLs were verified. The finding are summarised below:

- **Incomplete and incorrect documentation**

  Our scrutiny revealed that necessary documentary evidence for issue of licences was neither found on record nor was the same furnished to audit. A few instances are mentioned below:

  - In 81 cases, certificate of address proof of the applicants were not enclosed.
  - In 35 cases, the proofs of date of birth were not enclosed.
  - In 6 cases, the blood group of the applicants was not mentioned.
  - In 3 cases, the applicants had mentioned different blood group than that mentioned in the medical certificate submitted by the applicants
  - 37 unsigned applications were received from the applicants.

- **Data entry error and processing of incomplete applications**
  - In 4 cases, incorrect date of births were entered.
  - In 37 cases, LLs were issued to applicants whose applications were unsigned.
  - In 17 cases, the name of the applicants were incorrectly entered.

We did not find a mechanism for timely detection of data entry errors. We recommend that TD rectify the data entry errors and ensure processing of only those applications which are complete in all respect.

On this being pointed out, the department accepted (October 2011) the audit observation and stated that instructions would be issued to all DTOs to ensure that only those applications which are complete in all respect are processed.

4.7.10.4 Status of computerisation of issue of licences

The 'Sarathi' software was implemented in all the seven DTOs between July 2009 and August 2010. As on 31 March 2011, records of 37,033 driving licences (DL) have been computerised through 'Sarathi' software' as indicated below:

Sl No	DTO	Number of LLs/DLs computerised
1	Jaintia Hills	2,559
2	East Khasi Hills	21,151
3	West Khasi Hills	1,879
4	East Garo Hills	1,167
5	West Garo Hills	6,427

6	South Garo Hills	219
7	Ri Bhoi	3,631
	Total	**37,033**

Further we noticed that from the date of commencement of entry of backlog records to 30 June 2011, the different DTOs have been computerising 4 to 38 backlog records per day. At the current pace these DTOs will further require around 4 months to 49 months to complete computerising the remaining 2,07,573 backlog records. Backlog entry of South Garo Hills was yet to commence.

The date of commencement of backlog entry, pace of computerisation and further projected time required to complete the exercise is shown in the table below:

DTO	Date of commencement of backlog entry	No of days upto 30/06/11	B/L data computerised upto 30/06/11	Avg rate of computer-isation per day	Records pending computer-isation	Further projected time required to computerised at current pace
East Khasi Hills	30/09/09	638	24314	38	85000	73 months
West Khasi Hills	28/03/10	459	1878	4	12665	102 months
Ri Bhoi	01/02/10	514	2568	5	24350	160 months
Jaintia Hills	11/02/10	504	3934	8	25000	105 months
West Garo Hills	19/10/10	254	7307	29	42825	49 months
East Garo Hills	30/09/10	273	1050	4	11333	97 months
South Garo Hills	28/05/10	398	-	-	6400	-
Total			**41051**		**207573**	

Thus in view of the above the entry of backlog records in the system need to be done at a faster pace.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that the department is outsourcing the data entry to a private agency with a time frame to complete the work in three months.

4.7.10.5 Delay in issuing Learner Licences and Driving Licences

The MV Act does not prescribe any time frame for issue of learner licence (LL) and driving licence (DL). Bihar and Chandigarh have prescribed a timeline for delivery of services such as issue of LL within the same day and 2 days respectively, with provision for penalty ranging from ₹ 250 per day to ₹ 5000 deductible from the salaries of the defaulting employees. No such time line has been fixed in Meghalaya.

We noticed that out of 6,615 LLs, 2,354 LLs were issued on the same day, 3,938 LLs were issued within 30 days and 323 LLs were issued after a delay

ranging between 31 days to 183 days. The DTO-wise breakup of issue of LLs is shown in the following table.

DTO	*Period during which LL issued*	*No of LL*	*Same day*	*Within 1 day to 30 days*	*Within 31 to 183 days*
Jaintia Hills	18/01/10 to 29/03/11	917	770	123	24
East Khasi Hills	20/07/09 to 31/03/11	2,650	137	2,343	170
West Khasi Hills	24/02/10 to 31/03/11	600	209	321	70
East Garo Hills	01/11/10 to 31/03/11	331	122	199	10
West Garo Hills	17/08/10 to 31/03/11	1,289	989	287	13
South Garo Hills	02/08/10 to 31/03/11	177	123	50	4
Ri Bhoi	07/12/09 to 30/03/11	651	4	615	32
Total		**6,615**	**2,354**	**3,938**	**323**

Abnormal delay, ranging from 31 days to 183, days in issuing 453 LLs does not conform to the normal business practice.

Similarly the delay in issuing DLs was as below:

Sl	DTO	Period during which DL issued	No of DL	Same day	Within 1 day to 30 days	Within 31 to 461 days
1	Jaintia Hills	25/01/10 to 31/03/11	1,182	296	797	89
2	East Khasi Hills	04/09/09 to 31/03/11	4,374	159	3,293	922
3	West Khasi Hills	14/04/10 to 31/03/11	1,239	402	754	83
4	East Garo Hills	17/09/10 to 31/03/11	273	149	121	4
5	West Garo Hills	20/08/10 to 31/03/11	653	408	239	6
6	South Garo Hills	22/10/10 to 31/03/11	39	20	17	2
7	Ri Bhoi	11/02/10 to 31/03/11	684	43	447	194
Total			**8,444**	**1,477**	**5,668**	**1,300**

We recommend that TD fix a timeline for issue of an LL/DL with provision for penalty in case of delay recoverable from the defaulting employee.

On this being pointed out, the department accepted the audit observation and stated (October 2011) that instruction would be issued to all the DTOs for timely issue of LLs/DLs.

4.7.10.6 Need for revision of Form 2

The 'Sarathi' software contains provision to capture information of the applicant such as mobile phone numbers, email address, etc. However, the prescribed application form (Form 2) for a driving licence does not contain any columns seeking this information from the applicants.

We recommend that the TD revise the application form (Form 2) and incorporate additional columns for mobile phone numbers and email addresses.

On this being pointed out, the department accepted (October 2011) the audit observation and stated that Form 2 would be modified as recommended by audit.

4.7.11 Findings on National Permit System

4.7.11.1 Delay in implementation of National Permit System

With a view to implement a new composite fee regime for National Permit (NP) holders, an electronic system for grant of National Permit through a National Web Portal was developed by GOI, MoRTH in consultation with the NIC to be implemented from 15 September 2010. The user ID and password for the portal was provided to the TD/STA by NIC, New Delhi on 25 June 2010.

We noticed that the State Government approved the implementation of the system only on 25 January 2011. The STA, responsible for issue of NPs to transport vehicles, however, implemented the new system from 09 February 2011. There was thus a delay of 4 months 25 days from 15 September 2010 to implement the electronic system for grant of NPs.

On this being pointed out, the department while accepting (October 2011) the audit observation stated that the delay was due to office procedure.

4.7.12 Conclusion

The Performance Audit revealed a number of deficiencies in implementation of the project of computerisation in the Department. The Department had not entered into any annual maintenance contract (AMC) to repair the hardware or dispose off the defective hardware even though large percentage of its hardware was non-functioning. The State Registers of Registered Vehicles and Driving Licences were incomplete as backlog entries were not entered into the system. The backlog records of registered vehicles and driving licences issued, involving all seven DTOs had not yet been computerised. Secured environment for IT systems (Vahan, Sarathi and National Permit System) were not put in place and changes/modification to the software were taking place without any documentation. The log files generated by the system were deleted without conducting any analysis leading to loss of audit trail. The software had design deficiencies thereby enabling non-realisation of surcharge and penalty from vehicles registered late without charging penalty for delayed registration. The Performance Audit also highlights lack of inter-connectivity/common database leading to entry of duplicate registration number, chassis number, driving licences. Thus existing data was not reliable, besides the progress of implementation was very slow and at the current pace, the DTOs would further require 4 months to 49 months to complete computerisation of the backlog records. The Performance Audit also

highlights absence of a time limit for issue of LL and DL and abnormal delay was found in issuing these licences.

In the absence of clear IT strategy, execution and monitoring, the TD could not fully achieve its stated objectives of bringing transparency in the system, easing and speeding up all work related to vehicle registrations and driving licences and monitoring of work related to vehicle registrations and driving licences.

4.7.13 Summary of recommendations

We recommend that:

- TD take immediate action to repair the defective hardware. Action should also be taken to dispose off non-repairable/obsolete hardware. Formal procedure for 'request for change/modification' and approval of all changes be put in place. 'Permit', 'Temporary Registration' and 'Enforcement' module be utilised forthwith.
- necessary repairs to buildings be urgently carried out and fire extinguishers be placed in all field offices and Office of the STA. TD always issue a formal 'request for change/ modification' and document the approval for all changes carried out.
- the TD prepare and maintain the system documentation and update the user's manuals from time to time. TD ask NIC to create additional users who can switch on the system but without the right to change the system date in 'Vahan' and 'Sarathi' servers. We also recommend that TD issue instructions to prevent sharing of passwords.
- the SC be realised from the vehicles owners and NIC asked to disable the existing provision that enables manually entering the SC amount. All cases of duplicate registration numbers be investigated and rectified.
- NIC update the software to make data entry mandatory of all fields at the time of registration.TD should also ensure that data entry is regularly monitored. TD ask NIC to incorporate validation checks in 'Vahan' to prevent entry of incorrect data and rectify all incorrect data.

4.8 Misappropriation of revenue and late deposit of Government moneys

As per rule 7(1) of the Meghalaya Treasury Rules, 1985 all moneys received on account of revenues of the Government, shall, without undue delay, be paid in full into the treasury. Moneys collected but not deposited into Government account tantamount to misappropriation. Further, Rule 103 of the Meghalaya Financial Rules provides that all receipts and payments are to be noted in the cash book as soon as they occur and attested by the Head of Office (HO) or his duly authorised representative as a token of check. When moneys are to be deposited into treasury or bank, the HO should compare the treasury challans and bank receipts with the entries in the cash book to satisfy himself that the amount has been actually credited into Government account. Further, the HO should within a week of the end of the month obtain from the treasury a consolidated receipt for all the remittances made during the month which should then be compared with the postings in the cash book. The HO is responsible for the accuracy of the cash book and of the cash balances.

We noticed during test check of records of the Commissioner of Transport (CT), Meghalaya in March 2011 that entries in the cash book were made only upto 27 March 2010. During 2009-10 no monthly verification of the cash balance / closing balance was carried out. No detailed analysis of the closing balance as well as result of reconciliation of monthly consolidated receipts received from treasury was recorded in the cash book. ₹ 4.06 crore deposited into the treasury through 13 challans was not entered in the cash book. In 30 cases, Government moneys were deposited after a delay ranging between 5 to 122 days. We further found that the cashier received fines realised by the Enforcement Branch (EB) through receipt books. The cashier acknowledged receipt of moneys on the back side of the counterfoils of the receipt books. However, he either did not deposit the money in the treasury or deposited less than what he had received from the EB. As such, ₹ 6 lakh collected through 14 receipt books during 2009-10 was neither entered in the cash book nor deposited into treasury. The amount thus was misappropriated which was attributable to the non/irregular maintenance of cash book and laxity on the part of CT to monitor the receipt, deposit and accounting of moneys as prescribed.

We reported the matter to the Transport Department, GOM in April 2011, followed by demi-official letter to the Chief Secretary in June 2011, reply was awaited (September 2011).

4.9 Non levy/short levy of fine for non-renewal of permits

Under Section 81 (1) & (2) of the MV Act, 1988 the validity of a permit is five years and may be renewed on an application made not less than 15 days before the date of expiry of the permit. Plying of vehicles without *a valid permit attracts the provision of Section 192 A of the Act, under which, a minimum penalty of ₹ 2,000 shall be levied. Further, as per Section 66 of the Act ibid, no owner of a motor vehicle shall use his vehicle as a transport vehicle in any public place without a valid permit whether or not such vehicle is actually carrying any passenger or not.*

During scrutiny of the permit registers of the Commissioner of Transport (CT), Meghalaya and State Transport Authority (STA), Meghalaya, Shillong in March 2011 we noticed that 353 transport vehicles were plying without getting their permits renewed. For non-renewal of permits after expiry of validity period, minimum penalty of ₹ 7.06 lakh as stipulated in Section 192 A was leviable against which, only ₹ 2.17 lakh was levied and realised in 219 cases. In the remaining 134 cases, no penalty was levied. Thus, inaction on the part of the CT / STA led to short realisation of penalty of ₹ 2.17 lakh in 219 cases and non-realisation of penalty of ₹ 2.68 lakh in 134 cases.

We reported the cases to the Transport Department, GOM in May 2011; reply was awaited (September 2011).

4.10 Non-receipt of bank drafts sent for revalidation

Section 88 of the Motor Vehicles (MV) Act, 1988 Act stipulates that a permit granted in any one state shall not be valid in other states unless the permit is countersigned by the State Transport Authority (STA) of the concerned states on payment of prescribed fee known as Composite Fee (CF). The CF is payable by bank draft and remitted to the STA, Meghalaya when vehicles which have been issued permits by other states are authorised to ply in Meghalaya. The STA is required to maintain a Register of Valuables (RoV) to watch the receipt of bank draft from other states and ensure prompt credit of the amount into Government account.

During scrutiny of the bank draft registers of the STA, Meghalaya in March 2011, we noticed that the STA did not maintain a RoV. We also noticed that the STA did not deposit the bank drafts into the Government account in time. As a result, 179 bank drafts amounting to ₹ 5.42 lakh pertaining to the period from August 2009 to June 2010 became time-barred. The STA returned the bank drafts on various dates between February 2010 and December 2010 to the concerned STAs for revalidation but none of the bank

drafts were returned by other states. The STA also did not initiate any follow up action to get back the revalidated bank drafts thereby resulting in non-realisation of revenue of ₹ 5.42 lakh.

We reported the case to the Transport Department, GOM in May 2011; reply was awaited (September 2011).

4.11 Undue benefit granted to weighbridge lessees

In Meghalaya, private parties are allowed to operate weighbridges on behalf of the Transport Department (TD) on payment of lump sum annual amount to the State Government as agreed upon.

No norms have been stipulated in the Rules for determination of the agreed price. However, in actual practice, the agreed price is worked out on the basis of weighing fee and the estimated number of vehicles passing through the road.

There are 08 notified weighbridges in the State which were leased out to private parties to operate on behalf of the TD on payment of lumpsum amount of ₹ 2.48 crore during 2010-11. This was based on a weighing fee of ₹ 30 per loaded vehicle. The State Government, however, enhanced the weighing fee per loaded vehicle from ₹ 30 to ₹ 50 with effect from 08 January 2010. However, no notification was issued by the Government for revision of the lumpsum amount payable by the lessees.

We noted during test check of the records of the CT Meghalaya, Shillong in March 2011 that all lessees during 2010-11 charged the higher rate of ₹ 50 but paid ₹ 2.48 crore[21] as lease to the State Government instead of ₹ 4.13 crore. Absence of the Rules and failure of the TD to incorporate a provision in the agreements with the lessees to provide for a proportionate increase in the lease payable to government in the event that the weighing fee was enhanced during the duration of the lease led to a loss of ₹ 1.65 crore to the public exchequer and a corresponding undue benefit to the lessees.

We recommend that the TD incorporate a clause in the agreements with lessees to provide for a proportionate increase in the lease payable to government in the event of the weighing fee being enhanced during the course of the lease.

We reported the case to the Transport Department, GOM in May 2011; reply was awaited (September 2011).

[21] Calculated from 08 January 2010

4.12 Short realisation of Composite Fee

Under Section 88 of the Motor Vehicle Act, 1988, a permit granted in any one state shall not be valid in any other state unless countersigned by the State Transport Authority (STA) of the other state. Further, under Section 6 B of the Meghalaya Motor Vehicle Taxation Act, vehicles granted an All India Permit granted by any STA other than the State of Meghalaya shall ply in Meghalaya on payment of a Composite Fee (CF) in lieu of all taxes leviable under the Act. The CF is ₹ 12,000 per annum in respect of tourist maxi cabs. The CF is realised by the STA of the state which grants the permits and remitted to the STA, Meghalaya through bank drafts.

During scrutiny of records of the STA Meghalaya in March 2011, we noticed that 232 tourist maxi cabs registered in Assam were authorised to ply in Meghalaya during 2009-10 from whom the STA, Assam had realised CF totaling ₹ 13.92 lakh (at the rate of ₹ 6,000 per vehicle each instead of ₹ 12,000) and remitted to STA, Meghalaya through bank drafts. The STA, Meghalaya however, did not take up the matter with his counterpart in Assam to recover the balance amount of ₹ 13.92 lakh thereby resulting in short realisation of CF of ₹ 13.92 lakh.

We reported the case to the Transport Department, GOM in May 2011; reply was awaited (September 2011).

EXECUTIVE SUMMARY

Marginal decrease in collection of revenue	In 2010-11, the collection of revenue from stamps & registration decreased by 2.4 *per cent* over the previous year.
Negligible recovery by the Department of observations pointed out by us in earlier years.	During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 8.38 crore in 11 paragraphs. Not a single reply was furnished by the Government in respect of any of the paragraphs and no recovery was intimated.
Result of audits conducted by us in 2010-11	During the year 2010-11, we had test checked the records of three units relating to Stamps & Registration Department and pointed out non / short realisation of duties, amounting to ₹ 1.74 crore in 5 cases. The Department, has neither replied nor recovered the amount in any of the cases.
What we have highlighted in this chapter	In this Chapter, we present illustrative cases of ₹ 5.48 crore selected from observations noticed during our test check of records relating to levy and collection of stamp duty in the office of the District Registrar, Nongpoh and District Sub-Registrar, Khliehriat. It is matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action to prevent recurring loss of revenue. We are also concerned that though some of these omissions were apparent from the records made available to us, the Department was unable to detect these mistakes.

CHAPTER-V: STAMP DUTY AND REGISTRATION FEES

5.1 Tax administration

The levy and collection of tax is administered by the Stamps & Registration Department headed by the Inspector General of Stamps (IGR) at the Directorate level. At the Department level, the Principal Secretary is the chief revenue controlling authority. Further, there are District Registrars/Sub-Registrars at the district level for levy and collection of stamp duty and registration fee.

5.1.1 Trend of receipts

Actual receipts from Stamps & Registration Department during the years 2006-07 to 2010-11 along with the tax receipts during the same period is exhibited in the following table.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total non tax receipts
2006-07	5.50	6.49	(+) 0.99	15	304.74	2.13
2007-08	7.92	5.99	(-) 1.93	32	319.10	1.88
2008-09	9.50	5.54	(-) 3.96	71	369.44	1.50
2009-10	8.11	11.02	(+) 2.91	26	444.29	2.48
2010-11	8.60	10.76	(+) 2.16	20	571.45	1.88

The wide variation between budget estimates and actual collection in the last five years shows that the budget is not being realistically framed.

Stamps & Registration receipts formed about 2 *per cent* of the total non-tax receipts of the State during the last five years.

5.2 Impact of audit reports

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 8.38 crore in 11 paragraphs. Not a single reply was furnished by the Government in respect of any of the paragraphs and no recovery was intimated.

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No	Amount	No	Amount	No	Amount
2006-07	2	0.76	-	-	-	--
2007-08	3	0.22	-	-	-	--
2008-09	1	1.21	-	-	-	--
2009-10	2	0.71	-	-	-	--
2010-11	3	5.48	-	-	-	-
Total	11	8.38	-	-	-	-

We recommend that the Department revamp its revenue recovery mechanism in order to effect recovery in the cases pointed out.

5.2.1 Results of audit

Test check of the records of three units[1] relating to Stamps & Registration Department during the year 2010-11 revealed non / short realisation of duties, amounting to ₹ 1.74 crore in 5 cases which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-realisation of stamp duty	01	0.81
2.	Short realisation of stamp duty	04	0.93
Total		**5**	**1.74**

During the year, the Department did not reply to a single case pointed put by audit and no recovery was intimated in respect of any of the cases.

5.2.2 Non-compliance of the provisions of the Acts/Rules

The provisions of the Indian Stamp Act, 1899 and Rules made thereunder require levy and payment of:

- Stamp duty on document of lease at prescribed rate
- Stamp duty for registration of conveyance deed for transfer of land at full rates when purchased by companies
- Stamp duty on market value of immovable property

Non-compliance of the provisions of the Acts/Rules in some cases as mentioned in succeeding paragraphs resulted in non/short realisation of ₹ 1.89 crore.

[1] District Registrar, Shillong & Nongpoh, Sub-Registrar, Khliehriat

5.3 Short realisation of stamp duty on Mining Lease Deed

Under Section 26 of the Indian Stamp Act, 1899 for the lease of a mine in which royalty is received, stamp duty shall be collected on anticipated royalty. Clause 35(a)(v) of the Indian Stamp (Meghalaya Amendment) Act, 1993 lays down that, stamp duty on lease where lease is executed for a term exceeding 10 years but not exceeding 20 years and exceeding 20 years but not exceeding 30 years, shall be calculated at the rate of ₹ 99 per thousand for a consideration equal to two times and three times respectively the value of the average annual rent received.

5.3.1 We noticed in Sub-Registrar office, Khliehriat in December 2010 that the Government of Meghalaya executed a lease agreement on 22 June 2009 with M/s JUD Cement Private Limited for a period of 30 years for extraction of limestone. As per the agreement, the anticipated royalty on limestone from the lease land was ₹ 1.84 crore per year against which, stamp duty[2] of ₹ 54.53 lakh was realisable. However, only ₹ 780 was collected in this case resulting in short realisation of stamp duty of ₹ 54.52 lakh.

5.3.2 We also noticed in Khliehriat that the State Government executed two lease agreements with two lessees[3] on 08 March 2007 and 25 September 2009 for a period of 20 years for extraction of limestone. As per the agreements, the anticipated royalty in limestone from the leased land was ₹ 4.31 crore per year, against which, stamp duty of ₹ 85.34 lakh[4] was realisable. However, the Sub-Registrar levied and realised only ₹ 49.33 lakh resulting in short realisation of stamp duty of ₹ 36.01 lakh.

We reported the cases to the Excise, Registration, Taxation & Stamps Department, GOM in December 2010; reply was awaited (September 2011)

[2] ₹ 1,83,60,000 X 3 X 99/1000=₹ 54,52,920
[3] M/S Adhunik Cement and M/S Meghalaya Cement Ltd
[4] ₹ 65,25,000 + 3,65,76,000 = ₹ 4,31,01,000
₹ 4,31,01,0001 X 2 X 99/1000 = ₹ 85,33,998

5.4 Short levy of stamp duty

Under Section 23.3 of the Indian Stamp Act, 1899 stamp duty is leviable on the sum actually due on the date of the execution of the instrument. Further, under Rule 3 of the Meghalaya (Prevention of Under-Valuation of Property) Rules, 1983 when an instrument is presented for registration before any registering authority, the person or persons executing the same shall state the full market value of the property. To prevent undervaluation, the Deputy Commissioner (DC) Ribhoi, Nongpoh, on 14 March 2006 fixed the minimum value of land per sq. ft for different localities within the district. The stamp duty on sale/lease deeds shall be calculated at the rate of ₹ 99 per ₹ 1000 on the valuation worked out as specific under Section 23 of the Indian Stamp (Meghalaya Amendment) Act, 1993.

We noticed during test check of records of the District Registrar, Nongpoh in August 2010 that a sale deed[5] was executed for sale of 3,68,745.2 sq. ft of land at Upper and Lower Balian on 16 November 2009 for a consideration of ₹ 4.75 lakh. The District Registrar, at the time of registration, fixed the value of the aforesaid land at ₹ 18.44 lakh for the purpose of stamp duty and accordingly levied ₹ 1.83 lakh as stamp duty. However, as per rate fixed (March 2006) by the DC, the minimum value of land in Upper Balian is ₹ 20 per sq. ft. Therefore, the minimum value of land would be ₹ 73.75 lakh on which stamp duty[6] of ₹ 7.30 lakh was leviable. This resulted in short levy of stamp duty of ₹5.48 lakh.

We reported the case to the Excise, Registration, Taxation & Stamps Department, GOM in August 2010; reply was awaited (September 2011).

[5] Shri Pittorsing Marak (Seller) and M/s Pioneer Bar and Tubes (Pvt) Ltd (purchaser).

[6]

Location	Area (sq ft)	Value (area X ₹ 20)	Duty leviable	Value assessed	Duty levied	Short levy
Upper Balian	368745.2	₹ 73,74904	₹ 7,30,115	₹ 18,44,411	₹ 1,82,600	₹ 5,47,515

EXECUTIVE SUMMARY

Marginal increase in collection of revenue	In 2010-11, the collection of revenue from forest receipts increased by 10.08 *per cent* over the previous year which was attributed by the department to increase in the enforcement activities and revision of rate of royalty on limestone from ₹ 45 to ₹ 63 per MT from 13 August 2009.
Internal audit not conducted	Audit of the Forest Department has never been conducted by the Examiner of Local Accounts. This resultantly had its impact in terms of weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omission on the part of the Divisional Forest Officers remaining undetected till we conducted our audit.
No recovery by the Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation of royalty, fee, fines, etc, with revenue implication of ₹ 15.59 crore in 27 cases. Of these, the Department/Government accepted audit observation in seven cases involving ₹ 4.13 crore but no recovery was made.
Result of audits conducted by us in 2010-11	In 2010-11, we test checked the records relating to forest receipts and found non/short realisation/levy of royalty, fee, fines etc involving ₹ 8.43 crore in 24 cases. The Department failed to respond to any of the irregularities brought to their notice and no recovery on the basis of our observations was made.
What we have highlighted in this chapter	In this chapter, we conducted a Performance Audit on "Forest receipts of Meghalaya" involving ₹ 97.11 crore noticed during our test check of records relating to settlement of mahals, existence of illegal saw mills, encroachment of forest land, fees and fines etc, in the Office of the Principal

	Chief Conservator of Forests and Divisional Forest Officer, where we found that the provisions of the Act/Rules were not followed. It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records, which were made available to us, the Department was unable to detect these mistakes.
Our conclusion	**The Department needs to redress the internal control system including strengthening of internal audit to prevent omissions of the nature detected by us in future.** **It also needs to initiate immediate action to recover the short realisation of royalty, fees, fines etc, pointed out by us; more so in those cases where it has accepted our contention.**

CHAPTER-VI: FOREST RECEIPTS

6.1 Tax administration

The Principal Secretary, Forest and Environment Department is the head of the Forest Department at the Government level. At the Department level, the Principal Chief Conservator of Forests (PCCF) monitors the overall implementation of forest related projects including forest receipts. The implementing authorities at the district level are the Divisional Forest Officers (DFO). All forest related activities including revenue collection are regulated by the Meghalaya Forest Regulation (Application and Amendment) Act, 1973, the Assam Settlement of Forest Coupes[1] and *Mahals*[2] by Tender System Rules, 1967 (as adopted), the Meghalaya Forest (Ejectment of Unauthorised Person) Rules, the Meghalaya Tree (Preservation) Act, 1976 and the Meghalaya Removal of Timber Regulation Act, 1981 and various Rules made thereunder.

6.2 Trend of receipts

Actual receipts from Forest Department during the years 2006-07 to 2010-11 along with the total non-tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non tax receipts
2006-07	14.30	16.66	(+) 2.36	17	184.37	9
2007-08	17.85	15.60	(-) 2.25	13	199.35	8
2008-09	19.27	17.36	(-) 1.91	10	225.31	8
2009-10	20.35	20.03	(-) 0.32	2	275.09	7
2010-11	22.77	22.05	(-) 0.72	3	301.69	7

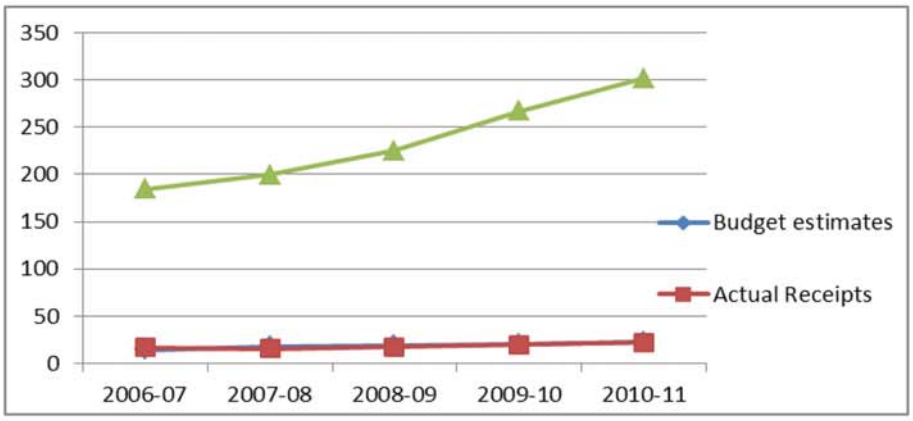
Thus, the percentage variation which was 17 *per cent* in 2006-07 came down consistently to the level of (-) 3 *per cent* in 2010-11. The high level of variation between the budget estimates and actual reflects that the Department needs to frame the budgets prudently based on past trends and future potential.

Forest receipts formed about 7-9 *per cent* of the total non-tax receipts of the State during the period 2006-07 to 2010-11.

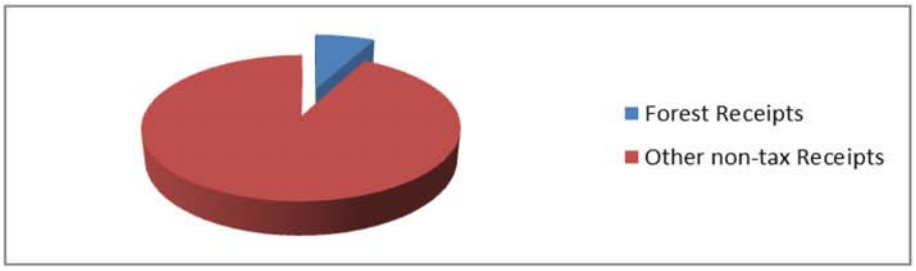
[1] A compact area where a number of trees are pre marked for sale by way of auction or tender on condition of their removal within a specified period.

[2] A well defined area wherefrom certain types of forest produce are sold on condition of their removal within a specified period.

A line graph of budget estimates, vis-à-vis the actual receipts and total non-tax receipts of the State may be seen below:



Also a pie chart showing the position of actual forests receipts vis-à-vis other non-tax receipts during the year 2010-11 may be seen below:



6.3 *Impact of audit reports*

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation of royalty, fees etc., with revenue implication of ₹ 118.19 crore in 25 paragraphs. Of these, the Department/ Government had accepted audit observations in six paragraphs involving ₹ 100.39 crore, in respect of which, no recovery has been made. The details are shown in the following table:

(₹in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	7	5.49	3	1.40	-	--
2007-08	6	9.93	-	--	-	--
2008-09	6	3.56	2	1.88	-	-
2009-10	5	2.10	-	--	-	-
2010-11	1	97.11	1	97.11	-	-
Total	**25**	**118.19**	**6**	**100.39**	**-**	**--**

Thus, though the Department/Government have accepted six paragraphs involving revenue of ₹ 100.39 crore, no recovery could be made during the past five years. This reflects that there is a need for the Department/Government to revamp the revenue recovery mechanism to ensure that at least the revenue involved in the accepted cases is recovered.

6.4 Results of audit

Test check of the records of 16 units relating to the Forest Department during the year 2009-10 revealed non-realisation of royalties, fees etc., amounting to ₹ 105.54 crore in 25 cases which can be categorised as under:

(₹ in crore)

Sl. no.	Category	Number of cases	Amount
1.	Performance Audit on "Forest Receipts of Meghalaya"	1	97.11
2.	Non-realisation of fees	3	1.50
3.	Loss of revenue	6	3.74
4.	Other irregularities	15	3.19
Total		**25**	**105.54**

During the year 2010-11, the Department failed to respond to any of the irregularities brought to their notice except the Performance Audit where they have accepted all the lapses involving ₹ 97.11 crore.

A Performance Audit on "Forest Receipts of Meghalaya" involving ₹ 97.11 crore is mentioned in the succeeding paragraphs.

6.5 Performance Audit on "Forest Receipts"

Highlights

- Revenue of ₹ 2.84 crore could not be earned during 2005-06 to 2010-11 due to non settlement of Mahals.

(Paragraph 6.5.7)

- There were 162 illegal sawmills operating in the state as against 41 licensed sawmills.

(Paragraph 6.5.8)

- 26 *per cent* of reserved forests in Jaintial Hills Division (JHTD) were encroached as on March 2011 and not a single encroacher had been evicted by the DFOs. There was inadequate monitoring of the cases filed against encroachers.

(Paragraph 6.5.9)

- The Government had not revised royalties and export fees since November 1998 and October 1999 respectively resulting in foregoing of ₹ 16.99 crore.

(Paragraphs 6.5.10.1 and 6.5.10.2)

- All the six working plans/schemes of the State had not been prepared and submitted to the MOEF, despite creation of a separate office for processing the Working Plans.

(Paragraph 6.5.11.1)

- Failure to harvest the bamboos led to a revenue loss of ₹ 1.20 crore, though Bamboo was identified as the chief marketable product in the Garo Hills Territorial Division (GHTD).

(Paragraph 6.5.11.2)

- In GHTD and Khasi Hills Territorial Division timber measuring 471.85 cum involving royalty of ₹ 26.76 lakh had been felled and removed illegally

(Paragraph 6.5.12.1)

- Our cross verification of records of the Taxation and Forest Department for the period 2005-06 to 2010-11 revealed non recovery of ₹ 6.63 crore on account of evasion of royalty and export fee by two firms.

(Paragraph 6.5.12.2)

- Non resolution of differential rates of royalty with District Councils led to charging of two rates for the same products such as toko leaves, bamboo and cane, encouraging unhealthy competition between the State and the District councils.

(Paragraph 6.5.12.3)

- Export fee of ₹ 3.95 crore on 13.16 lakh MT limestone extracted from KHTD and JHTD was not levied

(Paragraph 6.5.14)

- Cess of ₹ 4.33 crore on 39.14 lakh MT of limestone extracted during 2005-06 and 2010-11 was not realised by the Department.

(Paragraph 6.5.14.1)

- We found that eight cement factories were setup in Jaintia Hills District without forest clearance. Failure of the State Government in allowing setting up of cement factories without the approval of the Central Government and lack of will to keep their operation in abeyance, resulted in non-recovery of net present value of ₹ 43.45 crore.

(Paragraph 6.5.14.16)

6.5.1 Introduction

The total geographical area of Meghalaya is 22,429 sq. km. out of which forest cover comprises 17,321 sq. km. (77.23 *per cent*)[3]. The recorded forest area is 9,496 sq. km. out of which 1,124.32 sq. km. (11.84 *per cent*) comprising reserved forests and protected forests is under the direct control of the Forests and Environment Department, Government of Meghalaya. The remaining unclassed forests covering 8,371.68 sq. km. (88.16 *per cent*) are managed and administered by three autonomous District Councils[4].

6.5.2 Organisational setup

The Principal Secretary, Forests and Environment is the overall in-charge of the Forests and Environment Department. At the Directorate level, the Principal Chief Conservator of Forests (PCCF) is the administrative head. For carrying out its assigned responsibilities, the Directorate is divided into four circles *viz.,* Territorial Circle, Wildlife Circle, Social Forestry and Environment Circle and Research and Training Circle.

The function of the Territorial Circle is to regulate interstate as well as intrastate transit of various forest produce; regulate the extraction and transit of minor minerals and collection of royalty therefrom; regulate the establishment and operation of wood based industrial units and; protection, management of reserved forests, proposed reserved forests, protected forests, *etc*.

The Principal Chief Conservator of Forests (Territorial) [PCCF(T)] is the head of the Territorial Circle. He is assisted by a Chief Conservator of Forests (CCF) and two Conservators of Forests (CF). There are three territorial divisional offices[5] in the State at the field level each headed by a Divisional

[3] India State of Forest Report 2009 published by Forest Survey of India.
[4] Khasi Hills Autonomous District Council (KHADC), Jaintia Hills Autonomous District Council (JHADC) and Garo Hills Autonomous District Council (GHADC).
[5] Offices of the Divisional Forest Officers - Khasi Hills Territorial Division (KHTD), Shillong; Jaintia Hills Territorial Division (JHTD), Jowai; Garo Hills Territorial Division (GHTD), Tura.

Forest Officer (DFO) and assisted by Assistant Conservators of Forests (ACF) and Forest Range Officers (FRO).

6.5.3 Audit objectives

A Performance Audit of the Forest Receipts in the State was conducted with the following objectives:

- ascertaining the adequacy of the systems in place to prevent violation of the laws and procedures and consequent loss of forest revenues;
- ascertaining whether collection of forest revenues was maximum to the extent prescribed;
- gauging revenue mobilisation efforts and timely revision of rates of royalty of various forest produce;
- whether use of forests and extraction and disposal of forest produce was in accordance with the various Acts, Rules and court orders; and,
- extent or lack thereof of co-ordination and information sharing between the Department and other state agencies to maximize collection of revenue.

- extent and adequacy of monitoring and internal control mechanism in place.

6.5.3.1 Audit criteria

In Meghalaya, the extraction and disposal of forest produce are regulated by the following Acts and Rules:

- Assam Forest Regulation, 1891 and Assam Settlement of Forest Coupes and Mahals by Tender System Rules, 1967 as adapted under the Meghalaya Forest Regulation (Application and Amendment)Act, 1973;
- Meghalaya Forest (Ejectment of unauthorised persons from Reserved Forests) Rules, 1979;
- Government of India, Forest Conservation Act, 1980;
- Government of India, Forest Conservation Rules, 1981;
- Meghalaya Forest (Removal of Timber) (Regulation) Act, 1981;
- Meghalaya Forest (Removal of timber) (Regulation) Rules 1982;
- Meghalaya Forest Based Industries (Establishment & Regulation) Rules, 1998;
- Meghalaya Charcoal Rules, 2008.

6.5.4 Scope of audit

The Performance Audit for the period 2005-06 to 2010-11 was conducted between January 2011 and May 2011 through test check of records of the PCCF and PCCF(T) at the Directorate and all the three territorial divisions in the field.

6.5.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation extended by the Forests and Environment Department to Audit in the course of this assignment. An entry conference attended by the Deputy Secretary, Finance Department and the Chief Conservator of Forests (Territorial) was held on 14 January 2011 where the officials were apprised of the objectives, scope and methodology of this Performance Audit. The draft Performance Audit report was sent to the Government/Department on 21 June 2011 for their response. An exit conference was held on 1 July 2011 with the Under Secretary, Finance Department, Deputy Secretary, Forest Department and the Conservator of Forests (HQ) in which the results of audit were discussed. The Government/ Department have accepted most of the audit findings/recommendations and assured to take action.

6.5.6 Audit Findings

6.5.6.1 Revenue collection vis-à-vis budget estimates

Forest receipts, a source of non-tax receipts, are largely derived from sale of major forest produce such as wind fallen/seized timber and from sale of minor minerals such as stone/boulders and sand. Export fees realised from forest produce exported outside the State also form a substantial part of the revenue. The budget estimates and forests revenue actually collected during the years 2005-06 to 2010-11 are shown below:

(₹ in crore)

Year	Budget Estimate	Actual Collection	Variation/ (+) excess/(-) shortfall	Percentage of variation
2005-06	13.00	15.30	(+) 2.30	18
2006-07	14.30	16.66	(+) 2.36	17
2007-08	17.85	15.60	(-) 2.25	13
2008-09	19.27	17.36	(-) 1.91	10
2009-10	20.35	20.03	(-) 0.32	2
2010-11	22.77	20.05	(-) 2.72	12

Source: *Finance Accounts, Government of Meghalaya*

It can be seen from above that revenue collection in the first two years of the period under review exceeded the budget estimates while in the remaining four years, the actual collections fell short of the estimates. Barring 2009-10 when the percentage of variation between the budget estimates and actuals was two *per cent*, the extent of variation in the other years was on the higher

side and ranged from 10 to 18 *per cent* which indicated that the budgetary formulation practices of the Department were not realistic.

6.5.7 Operation of mahals

Clause 2(c) of the Assam Settlement of Forest Coupes and Mahals by Tender System Rules, 1967 defines *mahal* as *"a defined area wherefrom certain types of forest produce are sold on condition of their removal within a specified period"*. Clause 3 of the said Rules further stipulates that *mahals* are to be settled by inviting tenders.

As on 31 March 2011, there were nineteen[6] notified *mahals* in Meghalaya under the three territorial divisions.

6.5.7.1 Loss of revenue due to non-settlement of mahals

DFO, Khasi Hills Territorial Division

Mention was made in paragraph No 6.8.1[7] of he Comptroller and Auditor Generals'(CAGs') Audit Report (AR) 2007-08, Government of Meghalaya (GOM) that since no *mahals* were put up for tender[8] and all fifteen *mahals* under the KHTD with a total capacity of 27,950 cubic metres (cum.) of stone and 50,175 cum. of sand per working season remained unsettled during 2005-06 and 2006-07 resulting in loss of revenue of ₹ 74.83 lakh.

We further noted that no *mahals* in the KHTD were put up for tender during 2007-08 to 2010-11 also and hence there was a further revenue loss of ₹ 1.50 crore[9] during these four years.

DFO, Jaintia Hills Territorial Division

Mention was made in paragraph 6.7[10] of the CAGs'AR 2009-10, GOM that though the Department notified, in April 2008, the Umngot and Rongpani *mahals* in JHTD each with a capacity of 3,000 cum. of boulders per working season, the *mahals* could not be operated during 2007-08 and 2008-09 owing to the resentment of the local people. The resultant revenue loss was ₹ 9.60 lakh. It was further mentioned that though the CF(T) had in January 2009 instructed the DFO, JHTD in January 2009 to meet the Deputy Commissioner of Jaintia Hills and work out a solution within six days, no further action was found on record. We noted that the impasse had not been resolved even as of

[6] **KHTD:** Umiam 2, Umiam 3, Umsaw Nongkharai, Umran, Umtrew, Umtru 1, Umtru 2, Umtru 3, Umtru river stone, Balat 1, Umling, Jadukata, Umkhrah river, Umtyngngar river,Umiew river.
JHTD: Malidor, Rongpani, Umngot.
GHTD: Phuljharu.

[7] Para 6.8.1 of the A.R. 2007-08 yet to be discussed by the PAC.

as there were no bidders on earlier occasions) during the period 2005-07, [8]

[9] (27,950 cum. of stone X ₹ 80 per cum. X 4 years = ₹ 89,44,000) + (50,175 cum. of sand X ₹ 30 per cum. X 4 years = ₹ 60,21,000) = ₹ 1,49,65,000.

[10] Para 6.7 of the A.R. 2009-10 yet to be discussed by the PAC

May 2011 and as a result, the two *mahals* could not be operated in 2009-10 and 2010-11 also leading to a further revenue loss of ₹ 9.60 lakh[11] for these two years.

We further noted that Malidor, the third *mahal* in JHTD, with a capacity of 4,000 cum. of boulders per working season was notified by the Department in January 2002. The operation of the *mahal*, after following due process, was allotted in the same month to a *mahaldar* for ₹ 8.24 lakh who however, could operate the *mahal* only for a limited period as operations had to be stopped on account of objections raised by the Forest Department, Government of Assam. Later attempts to operate the *mahal* also did not materialise due to ecological concerns raised by students' organisations. The revenue loss due to the *mahal* remaining unexploited during the review period 2005-06 to 2010-11 worked out to ₹ 19.20 lakh[12].

DFO, Garo Hills Territorial Division

Phuljharus[13] are seasonal plants with a harvesting period between January and March every year. *Phuljharu mahal* is the lone *mahal* under GHTD.

Mention was made in para 6.8[14] of the AR 2009-10, GOM that delay in settlement of the *mahal* by the Department by which time the *phuljharu* collection season for 2008-09 was already over, led to a revenue loss of ₹ 7.11 lakh. In respect of the other years of the period under review, the position of this *mahal* was as under.

➢ We found that during 2005-06, since no responses were received for the sale of 950 quintals of *phuljharu* despite three sale notices issued in August, October and December 2005, the Government on 24 February 2006 accorded permission to the Forest Development Corporation of Meghalaya (FDCM) to collect the *phuljharu* on payment of royalty. The Directorate communicated this to the FDCM on 06 March 2006 while the work order was issued by the DFO, GHTD to the FDCM on 14 March 2006. The FDCM however, did not operate the *mahal.* The reasons for non operation were not found on record with the department.

➢ We noticed that during 2006-07 and 2007-08 tenders were invited on 17 October 2006 against which four offers were received on 31 October 2006 with the highest bid at ₹ 0.62 lakh. The Directorate on 14 February 2007 issued a provisional settlement order to the highest bidder who then deposited the first instalment of ₹ 0.31 lakh. Thereafter, the DFO, GHTD issued the work order on 13 March 2007. The *mahaldar* (Shri Kalusing Sangma), instead of operating the *mahal* appealed to the Directorate to settle the *mahal* for the next working season *i.e.*, 2007-08 on the plea that the settlement was made

[11] 6000 cum. of boulders X ₹ 80 per cum. X 2 years = ₹ 9,60,000.
[12] 4000 cum. of boulders X ₹ 80 per cum. X 6 years = ₹ 19,20,000.
[13] Broomstick.
[14] Yet to be discussed by the PAC

late as a result of which, the collection season for 2006-07 was over. The request was turned down. The mahaldar for the year 2006-07, being aggrieved at his plea being turned down filed a court case under WP(C) No 322 (SH) of 2007. The court dismissed his petition on 21 July 2008 but by that time the harvesting season was over. Hence, the mahal remained unsettled during 2007-08.

- We found that during 2009-10 the *phuljharu mahal* was put up for sale in September 2009 which attracted the highest bid of ₹ 8.51 lakh (October 2009). The Department Tender Committee approved (November 2009) settlement with the highest bidder. The DFO, GHTD issued provisional settlement order on 13 January 2010. The bidder appealed for reduction of offered value, on the ground that the harvesting season would be over by February, which was turned down (February 2010) by the Directorate. Thereafter, neither did the bidder turn up for operating the *mahal* nor did he deposit the bid value. There was, thus, a loss of ₹ 8.51 lakh for the *mahal* remaining unoperated during 2009-10.

- We found that during 2010-11 the sale notice for the *phuljharu mahal* was issued on 25 August 2010. Three tenders were received. The Department settled (13 December 2010) the *mahal* with the second highest bidder at his offered bid of ₹ 2 lakh. Accordingly, the DFO, GHTD informed (07 January 2011) the bidder to deposit the first installment of ₹ 1 lakh within fifteen days. There was no response from the bidder. The DFO, GHTD stated (26 May 2011) that the Department was "*contemplating to file a bakijai case against him*". Consequently, the *mahal* remained unsettled during 2010-11.

A summary of the total number of notified *mahals* at the beginning of each of the years under review, the total number of *mahals* not operated during that year and the consequent revenue loss is given in **Appendix-I**. It will be seen that:

- none of the notified 17 and 19 *mahals* in existence during 2005-07 and 2007-11 respectively were actually operated;
- only the *phujharu mahal* in GHTD was allotted in four out of the six years under review, but the lessees did not operate the *mahal* in any of these years for various reasons;
- belated issue of settlement orders of *phuljharu mahal* led to a litigation case, and,
- against the potential revenue of ₹ 2.84 crore which would have been earned had the *mahals* been operated during 2005-06 to 2010-11, only ₹ 0.31 lakh was earned in 2006-07.

Reasons for non operation of *phujharu mahal* was not found on record.

Thus the above facts indicate that the Directorate has virtually not been able to earn any revenue from its *mahals* for various reasons and since the harvesting season for *phuljharu* is between January and March,

(i) We recommend that the Department should take urgent steps to comprehensively tackle these issues by engaging with land owners and Government of Assam, taking proactive steps to effectively address the concerns of the public and civil society organisations and, exploring the viability of introducing the permit system or any other alternative measures to settle the *mahals* to earn revenue.

(ii) Directorate should prescribe a clear-cut timeline for calling tenders for the *phuljharu mahal*, opening of tenders, acceptance of tenders, issue of allotment/work order, etc. to the successful bidder so that these formalities are completed well in time by, say, the first week of December every year.

(iii) The Department may consider introducing a 'single window system' to avoid delay in the settlement process.

6.5.8 Existence of illegal saw mills

The Supreme Court in its order dated 15 January 1998 had opined that the proliferation of wood-based industries was the main cause of degradation of forests in the North Eastern States and hence it directed that the establishment of such industries be regulated. The enactment of the Meghalaya Forest-Based Industries (Establishment and Regulation) Rules, 1998 was a consequence of this order.

Rule 4(1) of the Meghalaya Forest-Based Industries (Establishment and Regulation) Rules, 1998 *inter alia* stipulates that all wood-based industries[15] shall be established only in industrial/additional industrial estates notified by Government.

The State Government had declared eleven[16] areas in Meghalaya as industrial estates and as of January 2011, had granted licenses to 41 wood-based industries between 23 June 1999 and 29 January 2008[17] to operate at these notified locations. Of the 41 licensees 35, 04 and 02 licensees fell under the jurisdictional areas of the KHTD, JHTD and GHTD respectively.

Information furnished by the three territorial divisions, in May/June 2011 revealed that besides the 41 licensed wood-based industries, 164 unlicensed/illegal saw mills detected by the Department were operating in their territorial jurisdiction during 2005-06 to 2010-11 as below:

[15] Wood-based industrial units include saw mills, veneer mills and plywood mills.

[16] Byrnihat, Umiam, Mairang, Khliehriat, Khliehtyrshi, Nongstoin, Mendipathar, Williamnagar, Tura, Resubelpara and Mawkyrwat.

[17] Information furnished by the Directorate vide letter No. MFA 12/75/290 dated 19 January 2011 to Audit.

Year	JHTD		GHTD		KHTD	
	No. of illegal saw mills detected	No. of illegal saw mills closed down	No. of illegal saw mills detected	No. of illegal saw mills closed down	No. of illegal saw mills detected	No. of illegal saw mills closed down
2005-06	03	--	35	35	--	--
2006-07	--	--	09	09	--	--
2007-08	27	05	25	25	109	--
2008-09	05	09	23	23	06	06
2009-10	--	--	43	43	--	--
2010-11	22	01	32	19	30	30
Total	**57**	**15**	**167**	**154**	**145**	**36**

Source: *Information as furnished by the three divisions.*



Seized blade wheels of an illegal saw mill

We noticed that the DFO, JHTD informed (15 April 2011) the Deputy Commissioner (DC), Jaintia Hills District, Jowai that a survey (March 2011) conducted by the JHTD revealed that besides the 22 illegal saw mills detected during 2010-11, another 39 illegal saw mills closed earlier had started operating again. In another correspondence the DFO requested (20 May 2011) the Executive Engineer, Jowai (Distribution) Division, Meghalaya State Electricity Board (MeSEB) to disconnect power connection of 83 illegal saw mills. We compared this list (83 numbers) with the one sent to the DC (61 numbers) and detected 35 illegal saw mills which did not figure in the list sent to the DC. *Vice versa* there were 13 illegal saw mills on the list of the latter which did not figure in the list sent to the MeSEB. Thus, in effect 96 illegal saw mills were in operation in the areas under the JHTD as against 42 inferred from the above table. Further, the number of authorised (04) *vis-à-vis* unauthorised (96) sawmills in the JHTD was in the ratio of 1:24.

In the KHTD, 109 illegal saw mills were detected during 2007-08. The only action taken by the DFO, KHTD was to forward the list of 109 mills (13 April 2008) to the Chief Engineer (Distribution) MeSEB, Shillong with a request to disconnect their power supply. Thereafter, the KHTD never once pursued the matter with the MeSEB nor did the latter inform the former of any action it had taken in the matter. In the KHTD the number of authorised (35) *vis-à-vis* unauthorised sawmills (109) was in the ratio of 1:3.

In the GHTD, the number of authorised (02) *vis-à-vis* unauthorised sawmills (13) was in the ratio of 1:7. We further noted that in June 2010, the PCCF, Government of Assam had also brought to the notice of the GOM that 21 clandestine saw mills were operating on the Assam-Meghalaya border.

Thus, even by a conservative estimate, as many as 218 illegal saw mills[18] were operating in the State as of May/June 2011.

The Directorate admitted to Audit in January 2011 that its efforts to close down illegal saw mills permanently were ineffectual as seals fixed by the Directorate were broken by the errant saw mill owners and operations resumed despite several instructions to the contrary, FIRs lodged with the police to halt the illegal operations were futile and assistance taken from the MeSEB to disconnect the power to the illegal saw mills achieved little success.

Viewed against this backdrop, the inability of the Department/Directorate to effectively deal with the problem was a matter of serious concern with grave implications for the ecology and environment of the State.

We recommend that the Government may consider setting up a Monitoring Committee comprising of officials from the Forest, Police and Deputy Commissioner's establishment besides Meghalaya Energy Corporation Limited (erstwhile MeSEB) whose sole function would be to ensure coordinated, orchestrated and sustained efforts by their staff to stop any illegal saw mill from operating in the State.

6.5.9 Encroachment of reserved forests

Rule 3 of the Meghalaya Forest (Ejectment of unauthorised persons from Reserved Forests) Rules, 1979 stipulates that the DFO *"may eject any person who has entered into unauthorised occupation of land in a Reserved Forest or order him to vacate such unauthorised occupation*". The Union Ministry of Environment and Forests (MOEF) in May 2005[19] subsequently clarified that forest dwellers including tribals who are in continuous possession of forest land prior to 25 October 1980 shall be eligible to be considered for settlement of land right including regularisation of encroachment on forest land.

The extent of illegal encroachments in the State's reserved forests subsequent to the cut-off date stipulated by the MOEF was as below:

Year/ period	Area encroached (in hectare)				No. of persons involved				No. of cases filed				No. of verdicts delivered by court
	GHTD	JHTD	KHTD	Total	GHTD	JHTD	KHTD	Total	GHTD	JHTD	KHTD	Total	NIL
25.10.80 to 31.03.05	402.89	8047.00	1.27	8451.16	4498	3060	2	7560	57	925	2	984	NIL
2005-06	3.31	5.11	-	8.42	12	30	-	42	12	13	-	25	NIL
2006-07	11.57	12.16	-	23.73	20	05	-	25	16	17	-	33	NIL
2007-08	6.54	2.60	0.01	9.15	21	21	1	43	15	10	1	26	NIL
2008-09	6.16	0.42	-	6.58	25	03	-	28	10	03	-	13	NIL
2009-10	3.24	0.06	-	3.30	218	03	-	221	08	03	-	11	NIL
2010-11	1.87	-	-	1.87	22	-	-	22	09	-	-	09	NIL
Total	**435.58**	**8067.35**	**1.28**	**8504.21**	**4809**	**3122**	**3**	**7941**	**127**	**971**	**3**	**1101**	**NIL**

Source: *Directorate/Divisions*

[18] JHTD -96; GHTD – 13; KHTD -109

[19] MOEF letter No. 2-3/2004/FC to all States/Union Territories.

The above table reveals that between the period 25 October 1980 and 31 March 2011 the area of reserved forests encroached in the JHTD was 8,067.35 hectare. Considering that the total area of reserved forests under the JHTD was 31,145 hectare this meant that 26 *per cent* of reserved forests in the JHTD were encroached.

Overall however, there was a declining trend in encroachments after 2006-07 in the State.

We further noted that during the period 2005-11 under review, not even a single of the 7,941 encroachers were ejected from the reserved forests by the DFOs under the powers vested in them under Rule 3 *ibid*. Instead the DFOs took recourse to filing 1,101 cases against the encroachers in the courts between October 1980 and March 2011. We observed that:

- the 1,101 cases filed constituted just 13.86 *per cent* of the persons involved;
- the courts had not delivered a verdict in any of the 1,101 cases filed as of May 2011;
- the DFOs of the GHTD, JHTD and KHTD never followed up/pursued/monitored the cases sent to the court – the DFOs stated that once a case is filed its monitoring is done by the forest lawyer; and,
- the position of cases filed was not being monitored centrally at the Directorate level as no system of submission of periodical reports by the divisions was in place.

Thus the Department was not at all serious about tackling encroachment in forest areas effectively.

We also noticed that that the MOEF in February 2004[20] had directed:

- that in respect of any fresh occupation of forest land, the State Government shall hold the concerned District Magistrate, Superintendent of Police and the concerned DFO personally responsible for such encroachment and they would be liable for disciplinary action in respect of such encroachment;
- the constitution of State, Circle and District level encroachment monitoring committees immediately, who were required to meet quarterly, for eviction of encroachments and monitoring of the same.

We observed that the GOM had not implemented the above directives.

[20] MOEF letter No. 2-1/2003-FC(Pt) dated 05 February 2004 to all Chief Secretaries and PCCFs of States/Union Territories.

6.5.10 Failure to protect revenue

Protecting public revenues is a vital responsibility of every government department, more so, in the context of Meghalaya where the need for additional resource mobilisation had been engaging the attention of the GOM time and again.

6.5.10.1 Non-revision of royalty rates and consequential loss of revenue

Royalty means the prescribed fees payable for various forest produce to the State Forest Department and is arrived at based on market prices and average annual inflation of the said products. The prevailing rates of royalty (as of May 2011) for various forest produce and minor minerals were fixed by the Department on 12 November 1998.

We observed that following a decision taken at a departmental meeting on 12 June 2006, the Directorate submitted a proposal on 27 October 2006 to the Department for revision of royalty rates based on a comparison with the prevailing royalty rates of Assam Forest Department, for five types of minor minerals[21]. The Department did not act on this proposal. Subsequently, following a decision taken at another departmental meeting on 25 August 2008, the Directorate forwarded a fresh proposal[22] to the Department on 29 August 2008 which was at par with the earlier rates proposed in October 2006. As of May 2011, the Department was yet to approve the proposal. On the other hand, the Government of Assam, Forest Department had under notification dated 30.4.2005 and 1.9.2009 revised the rates of royalty of minor minerals. The position is shown below:

(In ₹)

Sl.No	Item	Royalty rates (per cum.) effective from 12 November 1998	Revised royalty rates (per cum.) proposed in October 2006 and August 2008	Royalty rates (per cum) notified by the Government. of Assam, Forest Department	
				with effect from 30.04.2005	with effect from 01.09.2009
1.	Sand	30.00	55.00	75	90
2.	Gravel, broken stone, shingle, boulder	80.00	148.00	100	130
3.	Squared stone	95.00	175.00	-	130
4.	Clay, earth	32.00	59.00	15	15
5.	Shingle	80.00	148.00	75	130

[21] 1) sand 2) gravel, broken stone and boulder 3) squared stone 4) clay, earth and shale 5) shingle.

[22] The PCCF in his submission did not propose a revision of the royalty rates of various timber and wood based forest produce as these rates were already higher than the prevailing market rate of such produce.

We noted that prior to 12 November 1998 the rates were last revised on 01 March 1994, *i.e.*, after a gap of around four and-a-half years. Following the revision in November 1998, the rates have thereafter not been revised even after a passage of more than twelve years.

Figures[23] furnished by the three territorial divisions revealed that the total royalty collected from minerals (barring squared stone) during 2007-08 to 2010-11 was ₹ 18.78 crore. The incremental revenue would have been ₹ 15.87 crore had the Department approved the Directorate's proposal of October 2006 to enhance the rates of royalty.

6.5.10.2 Non-revision of export fees

Under the powers vested vide Section 40(1) of the Assam Forest Regulation, 1891, the GOM from 01 August 1994 introduced the levy of export fees on various forest produce removed outside the State. The export fees were last revised on 21 October 1999.

We observed that the Department on 13 October 2008 directed the Directorate to propose a revision of export fees. Accordingly, the latter on 07 November 2008 submitted a proposal to enhance/introduce new export fees in respect of eleven types of forest produce[24]. We noted however that as of May 2011, the proposal was yet to be approved by the Department.

Out of the eleven types of forest produce, we test checked in respect of five items exported through Byrnihat checkgate, the additional export fees which could have been earned in 2009-10 and 2010-11 had the proposal been approved.

During these two years 1,04,421 trucks[25] carrying various forest produce crossed the checkgate out of which 28,128 trucks[26] carried five types of forest produce selected by us for test check, as indicated in the table below.

[23] Minor minerals extracted during 2007-08 to 2010-11:

(₹ in crore)

Item	Quantity (cum.)	Revenue realised	Revenue realisable at proposed rates	Loss due to non-revision
(i).Sand	16,11,280.38	4.83	8.86	4.03
(ii).Gravel, broken stone etc.	11,01,009.10	8.81	16.30	7.49
(iii).Clay, earth	2,86,216.55	0.92	1.69	0.77
(iv).Shingle	5,27,303.95	4.22	7.80	3.58
Total		**18.78**	**34.65**	**15.87**

Source: *Divisional records*

[24] round timber, sawn timber, firewood, charcoal(new), bamboo, broomstick, *tez patta*, cane, *dhoop* wood, bark and minor minerals.

[25] 35,666 and 68,755 trucks in 2009-10 and 2010 -11 respectively.

[26] 12,338 and 15,790 trucks in 2009-10 and 2010 -11 respectively.

Sl. No.	Forest produce (item)	No. of trucks	Present rates of export fee per truck (₹)	Export fee realised (₹in lakh)	Proposed rates of export fee per truck (₹)	Export fee realisable at proposed rates (₹in lakh)	Additional revenue (₹ in lakh) (Col 7-5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Phuljharu	5397	60	3.24	500	26.99	23.75
2.	Tez patta	2227	60	1.34	200	4.45	3.12
3.	Bamboo	2853	300	8.56	800	22.82	14.27
4.	Round timber	17	500	0.09	200	0.34	0.26
5.	Sawn timber	17634	200	35.27	600	105.80	70.54
Total		**28128**		**48.50**		**160.40**	**111.94**

Source: *Records furnished by KHTD*

It will be seen from the above table that the additional revenue foregone during 2009-11 was ₹ 1.12 crore in respect of just five items exported through one checkgate. The quantum of loss would be far higher if all the eleven types of forest produce exported through the other checkgates in the State were taken into account.

As is evident from paragraphs 6.5.10.1 and 6.5.10.2, the process of revising various royalties and fees was entirely Department-driven with the Directorate taking little initiative on its own in this regard. We observed that the Directorate did not have a system to monitor prices and price escalations of forest produce and minor minerals, reviewing whether the extant royalty rates and export fees reflected market conditions and periodically proposing revisions thereof. On the other, the actions of the Department in this regard were sporadic, characterised by indecision and indifference to protecting of government revenues. As a result, the royalty rates and export fees have not been revised even after twelve years and eleven years respectively.

We recommend that the government may ensure that rates of royalty and export fees are reviewed at least every two years by both the Directorate and Department and to protect revenue and ensure that royalties and fees are in sync with market conditions and the neighbouring state of Assam. We also recommend that:

(i) It should be made incumbent on the Directorate to review/propose revision of rates biennially on its own.

(ii) The Department on its part should notify the rates for a period of two years at a time.

6.5.11 Deficiencies noticed in working plans

6.5.11.1 Delay in preparation of Working Plans

To ensure sustainable management of forests the Supreme Court in January 1998, in Writ Petitions No. 202 of 1995 and 171 of 1996, ordered that state Governments shall prepare working plans[27] for all forest divisions and get them approved from the MOEF failing which, all felling and removal of timber of any kind will remain suspended in all forest[28] areas. Further, clause 8 of the National Working Plan Code brought out by the MOEF in June 2004 stipulates that Working Plans should be prepared two years in advance of expiry of the existing plan.

The status of Working Plans in the State was as follows:

State Forests			
Name of Territorial Forest Division	**Date of approval of working plan**	**Working period**	**Status**
KHTD	11.5.1999	1999-2000 to 2008-2009	Expired on 31.3.2009. Data for next working period still under compilation.
GHTD	16.12.1999	1999-2000 to 2008-2009	Expired on 31.3.2009. Field works and subsequent collection of data for next working period yet to be completed.
JHTD	12.5.1999	1999-2000 to 2008-2009	Expired on 31.3.2009. Field work and collection of data for next working period not yet started.
KHADC	25.10.2005	1.11.2005 to 31.10.2010	Expired on 31.10.2010. Draft working scheme for next working period submitted to PCCF for further action.
JHADC	13.03.2006	2005-2006 to 2010-2011	Expired on 31.3.2011. Draft working scheme for next working period submitted to PCCF for further action.
GHADC	14.11.2005	14.11.2005 to 31.10.2006	Expired on 31.10.2006. Draft working scheme for next working period submitted to PCCF for further action.

***Source**: Information gathered from MOEF and PCCF*

As evident from the above table all working plans/schemes, whether of State or District Councils, have as of May 2011, expired – one scheme expired more than four years back and three plans two years back. We observed that the Directorate had not submitted any new working plans to the MOEF.

We noted that the Directorate had a Working Plan Division which was entrusted with the primary responsibility of formulating Working Plans. The Division, headed by a Working Plan Officer, had 35 other staff on its rolls as on 31 March 2011. The expenditure on pay and allowances of the Division

[27] According to the National Working Plan Code issued by the MOEF in June 2004, working plans are prescriptions prepared on the basis of principles of sustainable forest management and recognised and innovative silvicultural practices.

[28] The Supreme Court in its order dated 12 December 1996 stated that "forests" meant any area recorded as forest in the government record irrespective of the ownership.

during 2005-06 to 2010-11 was ₹ 4.08 crore. However, despite the creation of this office, the Directorate had fallen behind by four years[29] and counting, in the preparation and submission of working plans for forests in the State under its control. The fact that the schemes of the District Councils also had all expired was a poor reflection on the functioning of the Directorate/ Division. The PCCF stated in July 2011 that due to usage of conventional methods the collection of field data for preparation of Working Plan was slow and the only solution to overcome the problem was application of Remote Sensing (RS) and Geographical Information Systems (GIS) and a proposal to this effect had been sent to the State Government for approval.

The lapsed status of all the working plans/schemes in the State raises misgivings about the Department's/Directorate's level of commitment to the Supreme Court's directive on sustainable management of forests. The failure of an establishment created expressly for the purpose of preparing working plans to prepare the said plans, further pointed to the indifference and lack of oversight and monitoring both at the level of the Department and Directorate.

6.5.11.2 Non-implementation of the Working Plan resulting in revenue loss

We noticed that the Working Plan (1975-76) of the GHTD had prescribed a three-year felling cycle for bamboo. The plan further indicated that the total number of culms[30] available for harvesting from Dainadubi and Darugiri forest areas at 8,19,423 and 21,71,921 culms[31] respectively. The annual yield from the two areas thus worked out to 9,97,115 culms[32] per season.

[29] All three working plans expired on 31 March 2009. As per the MOEF Code, plans are to be prepared two years in advance of expiry of the existing plan. Hence, all the three plans should have been prepared by March 2007, which as of March 2011, was yet to be done.

[30] One culm is equal to one bamboo.

[31] **1.Dainadubi**

Name of Reserved Forest	Area (hectare)	Species of bamboo	Total no.of culms
Chimabangshi	60.00	Kako/Muli	115614
Dhima	123.60	Kako/Muli	131771
Rajasimla	152.00	Kako/Muli	242241
Ildek	38.00	Kako/Muli	61041
Dibru Hills	311.04	Kako/Muli	268756
	684.64		**819423**

2,Darugiri

Name of Reserved Forest	Area (hectare)	Species of bamboo	Total no.of culms
Darugiri	30.00	Kako/Muli/Tarai	52591
Songsak	155.20	Kako/Muli/Dalu	227326
Dambu	129.01	Kako/Muli/Dalu	252575
Rongrengiri	730.00	Kako/Muli	1231439
Baghmara	84.51	Kako/Muli	128506
Angratoli	263.68	Kako/Muli/Dalu	279484
	1392.40		**2171921**

[32] (Dainadubi: 8,19,423 culms + Darugiri: 21,71,921 culms) ÷ 3 year cycle = 9,97,115 culms per year.

We, however, observed that although the GHTD's working plan for the period 1999-00 to 2008-09 identified bamboo as one of the chief marketable products and also mentioned that bamboo was to be harvested from Dainadubi and Darugiri forest areas, the plan failed to detail the bamboo bearing areas and the prescription for harvesting the bamboo in these areas. As a result, bamboo was not harvested during the ten-year period 1999-2009. The PCCF stated in July 2011 that harvesting of bamboos had not been proposed due to ecological considerations. The reply is not tenable as in the Working Plan of Garo Hills Circle pertaining to the years 1999-2000 to 2008-2009 it was mentioned that harvesting of bamboo may be made after the assessment of their growing stock. Thus, it is apparent that assessment of growing stock of bamboo had not been made and as such harvesting could not be executed. The said Working Plan nowhere mentioned that bamboo was not to be extracted due to ecological considerations.



Luxuriant growth of bamboo

The prevalent rate of royalty for dalu/muli bamboo is ₹ 100 per hundred and for kako bamboo ₹ 125 per hundred. Calculated on the basis of the royalty rate for dalu/muli bamboo, the revenue loss during the period 1999-2009 worked out to ₹ 99.71 lakh[33]. Further, since the working plan of the GHTD for the period 2009-10 and onwards was yet to be prepared/approved, there was a further revenue loss of ₹ 19.94 lakh[34] during 2009-10 and 2010-11 as the bamboo could not be harvested in these years also.

6.5.12 Revenue losses

6.5.12.1 Illegal felling and removal of timber

Under Sections 24 and 25 of the Assam Forest Regulation, 1891, felling of timber and removal thereof from a reserved forest constitutes an offence. To prevent illegal removal of forest produce, erection of checkgates at all the vital entry and exit points is the primary responsibility of the Department. There are 48 forest checkgates[35] set up all over the State.

[33] 9,97,115 culms per year X 10 years @ ₹ 1 per culm = ₹ 99,71,150

[34] No working plan for the succeeding period (2009-10 onwards) has been prepared and submitted to the MOEF for approval.

[35] **GHTD:** (1) Gaptoli (2) Kharkutta (3)Mahendraganj (4) Hollaidonga (5)Dainadubi (6)Adokgre (7) Rongjeng (8)Darugre (9) Naringgre (10) Singkhama (11) Kherra (12) Williamnagar (13)Samanda (14) Nangbiram (15) Mendima (16) Nengpatchi (17) Pongsudam (18) Bangshi (19) Nameram (20) Gasuapara (21) Mandalgitok.
KHTD: (1) Mawsynram, (2) Cherrapunji (3) Bholaganj (4) Bagli (5) Byrnihat (6) Khanapara (7) Sukulbaria (8) Athiabari (9)Belahiri (10) Umsiang (11) Umtyrnga (12) Barapathar (13) Maikhuli (14) 7th

We had in past ARs[36] reported on the illegal felling and removal of timber from reserved forests and the consequent loss of royalty thereof – cases which have featured in the AR 2006-07, GOM and onwards are listed in the table below. Fresh instances noticed during course of this Performance Audit are also shown in the table below.



Stumps of illegally felled trees

Cases pointed out in earlier Audit Reports					Year	Fresh audit findings					
	GHTD		KHTD			GHTD		JHTD		KHTD	
Audit Report for the year ended/Para No.	Timber illegally felled and removed (in cum.)	Royalty value involved (₹ in lakh)	Timber illegally felled and removed (in cum.)	Royalty value involved (₹ in lakh)		Timber illegally felled and removed (in cum.)	Royalty value involved (₹ in lakh)	Timber illegally felled and removed (in cum.)	Royalty value involved (₹ in lakh)	Timber illegally felled and removed (in cum.)	Royalty value involved (₹ in lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
31.3.06/ Para 6.4	754.76	35.93	-	-	2005-06	-	-	85.67	2.04	-	-
31.3.07/ Para 6.10	203.93	9.76	-	-	2006-07	-	-	56.47	1.57	-	-
31.3.08/ Para 6.9	1228.66	67.46	119.38	8.42	2007-08	-	-	28.03	0.61	-	-
31.3.09/ Para 6.6	510.77	23.72	-	-	2008-09	-	-	13.00	0.55	-	-
31.3.10/ Para 6.10	411.46	19.70	-	-	2009-10	145.83	8.11	16.85	1.38	-	-
-	-	-	-	-	2010-11	301.32**	18.25	8.89	0.09	24.70	0.40
Total	**3109. 58**	**156.57**	**119.38**	**8.42**	**Total**	**447.15**	**26.36**	**208.91**	**6.24**	**24.70**	**0.40**

Source of data: *Divisional records,*
***upto December 2010*

It will be seen that 3,109.58 cum. of timber with royalty value of ₹ 1.57 crore had been illegally felled and removed from reserved forests under the GHTD which was reported in earlier ARs. In course of this review we further noted from the divisional records that during 2009-10 and 2010-11 (upto December 2010) timber measuring 447.15 cum. with royalty value of ₹ 26.36 lakh had been illegally felled and removed.

In the KHTD, a revenue loss of ₹ 8.42 lakh was reported in the AR 2007-08, GOM due to illegal felling and removal of 119.38 cum. of timber. We further noticed from divisional records that during 2010-11 timber measuring 24.70 cum. with royalty value of ₹ 0.40 lakh had been illegally felled and removed.

Mile (15) Riat Khwan (16) Shyrwat (17) Umkhuti (18) Umtasor (19) Kyrdemkulai (20) Quinine (21) Murok, (22) 29th Mile (23) Umling, (24) 33rd Mile. **JHTD:** (1) Umkiang (2) Saphai (3) Saitsama.

[36] None of the paras reflected in the table have yet been discussed by the PAC.

In the JHTD we noticed that 208.91 cum. of timber with royalty value of ₹ 6.24 lakh had been felled and removed during 2005-06 to 2010-11.

In the above cases, the GHTD accounted for 90.97 *per cent* of the illegal timber felled and which accounted for 92.39 *per cent* of the total value of timber illegally felled in the State. We called for information from the DFO, GHTD regarding the vulnerable reserved forests from where the major illegalities were taking place. The information furnished in May 2011 revealed as follows:

Vulnerable reserved forests in GHTD		
Name of Range	**Name of reserved forest under the Range**	**Location of forest checkgates**
1.Dainadubi	(i) Chimabangshi (ii) Dhima	(i) Pongsudam (ii) Mendima (iii) Bangshi (iv) Nameram
2.Simsanggiri	Rongrenggiri	(i) Williamnagar (ii) Samanda (iii) Khera
3.Angratoli	Angratoli	Gasuapara

In spite of the recurring illegalities in the above mentioned reserved forests, no records could be furnished to substantiate that effective remedial measure had been taken at the divisional level to thwart the same. The location of the checkgates in these areas and their effectiveness was also questionable as despite their presence, the illegalities continued unabated. The Directorate on its part never reviewed the feasibility of checkgates once these were set up. This also indicated the Directorate's apathy in effectively tackling the menace.

6.5.12.2 Loss due to evasion of royalty and export fee on illegal export of boulder/stone chips/from forest areas

Rule 2(a) of the Transit Rules (framed under the Assam Forest Regulation, 1891) stipulates that no forest produce shall be extracted or removed except on payment of royalty. The prevalent rate of royalty on boulder/stone is ₹ 80 per cum. Further, the Department through a notification dated 21 October 1999 prescribed that all trucks carrying forest produce[37] from any forest or non-forest area for removal outside the State shall be levied a sum of ₹ 300 per truck as export fee. We randomly requisitioned 43 assessee files from the Superintendent of Taxes (ST), Williamnagar in February 2011 to verify whether persons/entities dealing in forest produce had correctly paid the prescribed royalties and fees. In two cases *viz.,* M/s Capricorn Stone Products, Mendipathar and M/s Milestone Concrete (P) Limited, Adokgre, we noticed that the firms had extracted 6.97 lakh cum. of boulder during 2005-06 to 2010-11 and after crushing the same into stone chips, exported the entire

[37] Viz, *"dhupwood, cane, bamboo, firewood, bark and minor minerals".*

quantity through 34,971 trucks to other States. A cross-check of this information with the records of the DFO, GHTD showed that no royalty or export fees had been paid by these two firms for extraction and export of the stone chips. The royalty and export fee recoverable worked out to ₹ 5.58 crore and ₹ 1.05 crore, as detailed in **Appendix- II,** by way of royalty and export fee respectively. After this being pointed out, the DFO stated in February 2011 that he would take up the matter with the ST, Williamnagar. He further opined that lack of checkgates at vital exit points led to such illegal export of forest produce.

We recommend that:

(i) The Directorate may in the above instances and other cases which come to light, issue standing instructions to the DFOs that FIRs should be immediately and invariably filed against the person(s)/firm(s) who have wilfully evaded payment of royalty and/or export fees. The progress and pursuance of these cases should be monitored on a monthly basis by the Directorate. The DFOs should additionally be instructed to explore all possible ways to recover the revenues due, in conjunction with other government agencies, if necessary.

(ii) The Department/Directorate should prescribe that DFOs of territorial divisions should take the lead in convening inter-agency meetings on a quarterly basis with representatives of other revenue collecting agencies of the Central (Customs & Excise, Income Tax) and State (Superintendents of Taxes, Department of Mining and Geology, etc.) governments operating in their territorial jurisdiction for regular exchange of information and a greater degree of coordination in revenue collection efforts.

(iii) The Directorate should carry out a review of the location of all the forest checkgates in the State to ensure that these are all well positioned. We noted that such an exercise had never been carried during the period under review.

6.5.12.3 Non-resolution of differential rates of royalty with District **Councils**

As mentioned earlier in this review, the total recorded forest area in Meghalaya is 9,496 sq. km. out of which 1,124.32 sq. km. and 8,371.68 sq. km. are under the control of the Department and the three Autonomous District Councils respectively. Under the provisions of the Sixth Schedule of the Constitution, the District Councils enjoy legislative, executive and judicial powers in management of forests under their control.

We observed that while the GHADC followed the rates of royalty prescribed by the Department, the KHADC and JHADC did not. A comparison of the schedules of rates of the Department and the latter two District Councils revealed that the KHADC and JHADC had their own rates which were on the

lower side barring for one item in KHADC and two in JHADC - the detailed position is given in **Appendix-III.**

In KHADC out of 12 items[38] of forest produce, the royalty for *toko* leaves was 400 *per cent* higher than that of the Department's. In respect of the other eleven items, the departmental rates were higher by 20 to 1,884 *per cent*. In JHADC, the royalty for bamboo and cane was higher by 60 to 2,567 *per cent* and 1,900 to 3,900 *per cent* respectively while the departmental rates were higher for seven items by 329 to 2,580 *per cent*.

At a meeting held on 25 August 2008, the Principal Secretary of the Department opined that the District Councils should bring their rates at par with the Forest Department as there cannot be two regimes operating royalty at different rates as the higher one would lose out. It was decided that the matter would be taken up with the District Councils. However, no further progress on this issue was found on record.

We recommend that the Department should take urgent steps to bring the royalty rates of forest produce of District Councils at par with its own. This would preclude the competition it has to face in earning revenue, maximise revenues for both the Department and the District Councils and correct what is presently an anomalous and untenable situation.

6.5.12.4 Arrears of revenue

Section 75 of the Assam Forest Regulation, 1891 stipulates that all money due to Government, on account of any forest produce if not paid when due, is to be recovered as if it were an arrear of land revenue.

The position of arrears of revenue up to 2004-05 of the three territorial divisions was as under:

(₹ in lakh)

Sl. No	Name of Division	Period of arrears	Revenue arrears
1.	GHTD	upto 2004-05	105.91
2.	JHTD	1982-83 to 2004-05	77.30
3.	KHTD	1950-51 to 2004-05	13.,74
Total			**196.95**

Source: *Divisional records*

We noted that the divisions were not able to recover even a single rupee of the above amount during 2005-06 to 2010-11. Arrears of revenue are reflected in divisional records in Form FD 7[39] prescribed in the Assam Forest Manual (adapted by the GOM). Since none of the divisions maintained this prescribed

[38] Comparison carried out for comparable items of forest produce in respect of which information could be obtained from the Department and District Councils.

[39] Form FD 7 shows the outstanding on account of revenue detailing defaulters names, particulars, period of outstanding, items for which outstanding, total outstanding and recoveries during each month.

form, we could not verify details of defaulters, amount outstanding against each and period for which outstanding. We further observed that the divisions did not take recourse to recover the amounts owed by the defaulters under Section 75 of the Assam Forest Regulation, 1891.

The KHTD and JHTD did not have any fresh arrears of revenue during 2005-06 to 2010-11. In the GHTD however, the position during this period of revenues realisable, revenue realised and arrears was as under:

(₹in lakh)

Year	Revenue realisable	Revenue realised	Revenue in arrears	Percentage of revenue realised
2005-06	25.65	8.61	17.04	33.55
2006-07	54.81	17.57	37.24	32.05
2007-08	23.35	8.00	15.35	34.25
2008-09	44.49	5.76	38.73	12.94
2009-10	50.77	44.19	6.58	87.05
2010-11	Nil	Nil	Nil	Nil
Total	**199.07**	**84.13**	**114.94**	**--**

Source: *Divisional records*

We noticed from records that the above position of revenue realisable/realised/arrears of GHTD during 2005-06 to 2010-11 all pertained to the FDCM. The arrears accrued because the FDCM was allowed to lift timber without prior payment of royalty as required under Rule 2 of the Transit Rules framed under sections 40 and 41 of the Assam Forest Regulation, 1891. Instead, bills were raised against the FDCM by the GHTD after the former had lifted the timber which was a violation of the rule *ibid*. From the above table it will be seen that against bills of ₹ 1.99 crore raised during 2005-11, FDCM as on 31 March 2011 had paid up ₹ 0.84 crore and ₹ 1.15 crore was outstanding.

We recommend that:

(i) The Directorate/GHTD should initiate vigorous steps to recover the arrears of revenue from FDCM.

(ii) The Directorate should immediately instruct GHTD to allow the FDCM to lift timber only after the full amount of royalty is paid in advance as prescribed under the rules.

6.5.12.5 Bakijai cases

As mentioned in the preceding paragraph, under Section 75 of the Assam Forest Regulation, 1891 all money due to government if not paid when due, is to be recovered as if it were arrears of land revenue. Hence it follows that in cases where revenue cannot be realized through departmental procedures, these should be sent to the Recovery Officer/Bakijai Officer in the Deputy Commissioner's office, to be recovered as arrears of land revenue. The position of cases sent to the Bakijai Officers was as below:

Sl. No	Name of Territorial Division	Cases referred to Bakijai Officer/Recovery Officer			
		Nos.	Relating to the periods	Amount (₹ in crore)	Referred during the periods
1.	KHTD	38	1962-63 to 2003-2004	0.53	April 1967 to June 2006
2.	GHTD	66	1955-56 to 1991-92	0.03	June 1966 to September 1989
3.	JHTD	08	1976-77 to 1985-86	0.99	NA[40]
Total		**112**	**1955-56 to 2003-04**	**1.55**	

Source: *Divisional records*

We noted that although 112 cases with a total money value of ₹ 1.55 crore relating to the period 1955-56 to 2003-2004 had been referred by the three territorial divisions during June 1966 to June 2006 to Bakijai Officers, in not a single case had the revenue arrears been recovered.

Our examination further revealed that the Bakijai Registers in the three divisions were not properly maintained or regularly updated. The DFOs[41] also did not monitor, pursue or take follow-up action once the cases were filed with the Bakijai Officers. We further observed that the Directorate had directed (25 August 1997) all the DFOs to send quarterly reports detailing status of Bakijai cases, *viz.*, amount outstanding, amount realised, cases settled, etc. Records revealed that none of the divisions complied with this directive as a result of which the Directorate itself was totally in the dark about these cases. In effect, cases once referred to the Bakijai Officer meant reaching a dead end.

6.5.12.6 Undisposed timber

The position of undisposed[42] timber under the GHTD and JHTD was as below:

Year	GHTD		JHTD		Total	
	Volume (in cum.)	Value* (₹ in lakh)	Volume (in cum.)	Value* (₹ in lakh)	Volume (in cum.)	Value* (₹ in lakh)
2002-03 to 2004-05	204.15	12.49	--	--	204.15	12.49
2005-06	332.52	19.45	53.01	1.05	385.53	20.50
2006-07	1096.25	61.63	23.44	0.21	1119.69	61.84
2007-08	550.69	17.77	23.52	0.55	574.21	18.32
2008-09	-	-	5.53	0.47	5.53	0.47
2009-10	-	-	11.42	1.09	11.42	1.09
2010-11	1291.92	74.89	8.89	0.09	1300.81	74.98
Total	**3475.53**	**186.23**	**125.81**	**3.46**	**3601.34**	**189.69**

Source: *Divisional records. There was no undisposed timber in KHTD.*

**royalty + departmental charges*

.The DFO, GHTD stated (04 February 2011) that 2,183.61 cum. of timber valuing ₹ 1.11 crore relating to the years 2002-03 to 2007-08 had deteriorated with the passage of time, mainly due to non-lifting of the same by the FDCM to whom the timber had been allotted. The DFO, JHTD stated (19 January 2011) that the FROs had been directed to dispose 116.92 cum. of timber

[40] Due to non-maintenance of Bakijai Register by the JHTD, period of referral could not be verified.

[41] DFO, KHTD had pursued (23 February 2010) 3 cases only with the Bakijai officer. There was no reply from the latter.

[42] Undisposed timber consists of windfallen and unclaimed seized timber.

valuing ₹ 3.38 lakh, relating to the period 2005-06 to 2009-10 as early as possible and further added that some quantity of timber had deteriorated.

We further noticed that during 2010-11, the undisposed timber in the GHTD was 1,291.92 cum. valued at ₹ 74.98 lakh and in the JHTD it was 8.89 cum. valued at ₹ 0.09 lakh which had neither been allotted to the FDCM nor sold by auction.

As per the prevailing arrangement, the three territorial divisions are required to sell undisposed timber only to the FDCM.

We recommend that while the first offer must be made to the FDCM, the divisions should be at liberty to sell off the undisposed timber to private parties in case the FDCM does not respond to the divisions' offer within a month from the date of which such offer is made.

6.5.13 Deficiencies relating to disposal of timber

6.5.13.1 Non-disposal of seized timber

Section 49 of the Assam Forest Regulation, 1891 lays down that when a forest offence has been committed in respect of any forest produce, such produce together with all tools *etc*. used in commission of such alleged offence may be seized by any Forest Officer or Police Officer. Section 54 of the Regulation further provides that the magistrate may direct the sale of any property seized under Section 49.

Our scrutiny of records indicated the following position in the GHTD, KHTD and JHTD with respect to seized timber during the period under review:

Year of offence	GHTD			KHTD			JHTD			Total		
	No. of offence reports	Volume of seized timber (in cum.)	Value of seized timber (₹ in lakh)	No. of offence reports filed	Volume of seized timber (in cum.)	Value of seized timber (₹ in lakh)	No. of offence reports filed	Volume of seized timber (in cum.)	Value of seized timber (₹ in lakh)	No. of offence reports filed	Volume of seized timber (in cum.)	Value of seized timber (₹ in lakh)
2005 -06	47	375.74	19.09	4	29.14	0.64	19	85.67	2.04	70	490.55	21.77
2006-07	117	828.21	40.01	1	8.63	0.14	13	56.47	1.57	131	893.31	41.72
2007 -08	58	175.88	7.12	3	8.44	0.14	15	28.03	0.61	76	212.35	7.87
2008 -09	66	204.85	9.50	1	8.94	0.06	-	-	-	67	213.79	9.56
2009 -10	66	342.38	14.92	1	4.86	0.08	3	16.85	1.38	70	364.09	16.38
2010-11	40	247.86	12.93	5	50.77	0.81	-	-	-	45	298.63	13.74
Total	**394**	**2174.92**	**103.57**	**15**	**110.78**	**1.87**	**50**	**187.02**	**5.60**	**459**	**2472.72**	**111.04**

***Source**: Divisional records*


Seized timber lying in the open

The above table shows that in the GHTD, 394 offence reports involving 2,174.92 cum. of seized timber valuing ₹ 103.57 lakh were filed in the courts. In the KHTD, 15 offence reports were filed involving 110.78 cum. of seized timber valuing ₹ 1.87 lakh and in the JHTD, 50 offence reports involving 187.02 cum. of seized timber valued at ₹ 5.60 lakh. Out of the 394 offence reports in the GHTD, verdicts had been announced against only four reports[43] involving 35.36 cum. of timber valuing ₹ 1.58 lakh. In the KHTD, against 15 offence reports verdicts had been announced against only two reports[44] involving 12.79 cum. of timber valuing ₹ 0.24 lakh. Thus, 453 offence reports filed by the three territorial divisions between April 2005 and March 2011 involving 2,424.56 cum. of seized timber valuing ₹ 109.22 lakh were awaiting disposal in the courts as of May 2011. We did not come across any evidence that the DFOs had pursued these cases with the courts to expedite them nor we noted, was this position being monitored at all at the Directorate level.

Further, although Section 54 provides for disposal of the seized timber on the orders of the court and timber being a perishable item, the DFOs had not in a single of the above cases, moved the courts to dispose off the timber which may have deteriorated with the vagaries of weather/time etc.

We recommend that the DFOs should be made personally responsible to move courts under Section 54 within one month from the date of filing of offence reports. The Directorate should make it incumbent upon the DFOs to furnish monthly progress reports to it on this matter.

6.5.14 Non-realisation of export fee

Section 3(4)(b) of the Assam Forest Regulation, 1891 defines limestone as a forest produce whether found in, or brought from a forest. The Forests and Environment Department in October 1999[45] notified that all trucks carrying

Name of Division	Year	Offence report (nos)	Timber involved (cum.)	Valuation (₹ in lakh)	Remarks
[43]GHTD	2005-06	1	32.54	1.47	Disposed off by auction.
	2006-07	3	2.83	0.11	Disposed off by auction.
		4	35.37	1.58	
[43]KHTD	2005-06	1	4.16	0.10	Disposed off by auction.
	2006-07	1	8.63	0.14	Disposed off by auction.
		2	12.79	0.24	

[45] Forests and Environment Department GOM Notification No. 58/90/233 dated 21 October 1999.

'forest produce' from any forest or non-forest area for removal outside the State shall be levied a sum of ₹ 300 per truck as export fee.

We had in past Audit Reports reported that the Department was not levying export fee on limestone[46] exported outside the State – such cases involving a total revenue loss of ₹ 8.08 crore which featured in the Audit Reports for the years ended 31 March 2008, 2009 and 2010 are listed in the table below.

Audit Report for the year ended	Territorial Division concerned	Amount of export fee not levied (₹ in crore)	Period for which amount in previous column was calculated
31 March 2008	KHTD, JHTD	6.95	April 2002 to March 2002
31 March 2009	KHTD	0.47	April 2007 to March 2008
31 March 2010	KHTD, JHTD	1.38	April 2008 to December 2008
TOTAL		**8.80**	

During scrutiny of records of the Directorate in the course of this Performance Audit, we further noted that from January 2009 to March 2011, 13.16 lakh MT limestone extracted from KHTD and JHTD was exported through 1,31,579 trucks on which export fee of ₹ 3.95 crore had not been levied.

When this issue came to the fore on an earlier occasion, the Department maintained (May 2009 and June 2011) that export fee was not being levied as limestone was not a 'forest produce'. This contention is unacceptable since royalty on limestone was being realised by the Forest Department and thus export fee was also leviable on the same forest produce in terms of the State Goverrnment's own Notification.

6.5.14.1 Non–realisation of cess on limestone

Section 6(2) of the Meghalaya Mineral Cess Act, 1988 stipulates that no person shall remove or transport or attempt to remove or transport 'minerals' from any mine or quarry in the State unless the tax due under the Act has been paid. Section 2(d) of the Meghalaya Minerals Cess Act, 1988 defines 'minerals' to mean coal, sillimanite, limestone and fire clay. In exercise of the powers conferred by the Act, the Mining and Geology Department, GOM[47] fixed the rate of cess on limestone at ₹ 5 per metric tonne (MT) with effect from 31 March 1992 and further revised it to ₹ 20 per MT with effect from 06 January 2009.

We observed that while the Directorate of Mineral Resources, GOM was collecting cess on limestone at the rate fixed by the State Government from time to time in respect of limestone extracted out of areas leased out to cement companies in the State, the Department was not doing likewise in respect of

[46] Limestone is found only in KHTD and JHTD.
[47] Department of Mines and Minerals, GOM Notification No. MG.116/88/87 dated 31 March 1992.

limestone extracted from other areas in the State. Since limestone is a mineral as defined under the Act *ibid*, the failure of the Department to collect the prescribed rate of cess was inexplicable / unjustifiable.

As ascertained from Departmental records, ₹ 39.14 lakh MT of limestone was extracted from areas other than those leased to cement companies during 2005-06 to 2010-11 on which the Department realised royalty but failed to collect the cess amounting to ₹ 4.33 crore[48].

6.5.15 Irregular collection of royalty by the GHADC

In accordance with a longstanding arrangement in force[49], royalty on minor minerals extracted from areas under the control of a particular District Council in Meghalaya was to be collected by the Department and then shared in the ratio of 40:60 between the Department and the concerned District Council. This arrangement therefore, precluded a District Council from collecting royalty on minor minerals.

We noted that the KHADC and the JHADC abided by the above pact. The GHADC however, did not. On 05 March 2008 the DFO, GHTD brought to the notice of the CF, (Wildlife & Territorial) Circle, Tura that contractors/suppliers were no longer paying royalty on minor minerals to the GHTD as the GHADC had started collecting the same. The CF on 06 March 2008 in turn sought a clarification in the matter from his superiors. The PCCF in his letter dated 23 April 2008 to the CF reiterated that apportionment of royalty between the Department and the District Councils was a longstanding practice and directed that royalty on minor minerals should continue to be collected by the GHTD. After a lapse of more than a year, the CF on 18 June 2009 requested the GHADC to stop collecting royalty on minor minerals as this was a "*violation of the existing mutual arrangement between the State Government and the GHADC*". However, as of May 2011 the matter was yet to be resolved and meanwhile, the GHTD had stopped the collection of royalty on minor minerals altogether.

We wrote to the GHADC on 27 January 2011, followed by reminders on 15 February 2011 and 23 March 2011, requesting for details of the royalty collected by the GHADC on minor minerals to which we did not receive a response. From a few records that we managed to obtain, as indicated below, it was evident that the GHADC was irregularly collecting royalty on minor minerals.

[48]

(₹in crore)

Period	Quantity of limestone extracted (MT)	Rate of cess per MT (₹)	Total cess unrealised (₹)
April 2005 to December 2008	2336053.22	5.00	1.17
January 2009 to March 2011	1578431.81	20.00	3.16
	3914484.99		**4.33**

[49] Since September 1956.

Source of information	Quantity of minor minerals extracted	Percentage of royalty collected by the GHADC	Royalty collected by the GHADC (₹ in lakh)
Letter dated 07.12.09 from the Secretary, GHADC to the PCCF	(i) 1809.97 cum. of sand at ₹ 30 per cum (ii) 2890.96 cum. stone @ ₹ 80 per cum.	60 %	1.71
Book No A 301/ Pass No 33 of GHADC.	(i) 300 cum. of sand @ ₹ 30 per cum. (ii) 500 cum. of stone @ ₹ 80 per cum.	100% 100%	0.49
ST, Williamnagar.	(i) 7338.98 MT of limestone @ ₹ 45 per cum. (ii) 7936.51 MT of limestone @ ₹ 63 per cum.	100% 100%	8.30

Further, in the cases cited above where the GHADC had collected 100 *per cent* royalty, we did not come across any evidence to suggest that the GHADC had remitted to the Department its share of 40 *per cent* of the proceeds.

Thus inaction of the GHADC is depriving the Department of its share of revenue.

We recommend that :

(i) the Government convene a meeting of the Department and the GHADC to sort out the issue at the earliest or alternatively.

(ii) the Government should withhold a portion of the annual financial assistance[50] given to the GHADC till it takes concrete steps to revert to the previous longstanding practice.

6.5.16 Use of forest land for non-forestry purposes without obtaining GOI approval

Section 2 of the Forest (Conservation) Act, 1980 mandates that proposals for diversion of forest land[51] for any non-forest purpose would require the prior approval of the Central Government.

We noted that officials of the North Eastern Regional Office (NERO), MOEF, Shillong had carried out site visits of cement plants in Jaintia Hills District in May and June 2010 and found that eight cement factories in the district did not obtain the prior approval of the Central Government. In these eight factories the inspection by NERO revealed that most of the certificates issued by authorities at different levels did not have a complete description of the land involved and not a single project had got forest clearance although they were located well inside forest areas.

The MOEF under a letter dated 29 June 2003[52] addressed to the Principal Secretary (Forests) of all States/Union Territories cited for their necessary

[50] During 2010-11 for instance, the GHADC received ₹ 2.14 crore as grant-in-aid from the State Government.

[51] The Hon'ble Apex Court in its order dated 12 December 1996 had opined that the term 'forest' mentioned in section 2 of the Forest (Conservation) Act, 1980 refers to reserved forest, protected forests or any area recorded as forest in the Government records and even includes privately owned forest.

[52] MOEF letter No. 5-1/98-FC(Part-II) dated 29 June 2003

action, the following operative part of the orders dated 12 November 2002 of the Hon'ble Supreme Court in Application No. 566 in Writ Petition (Civil) No. 2002 of 1995:

> *"……..while according transfer under Forest (Conservation) Act, 1980 for change in user-agency from all non-forest purposes, the user agency shall also pay into the said fund the net present value (NPV) of the forest land diverted for non-forest purposes. The present value is to be recovered at the rate of ₹ 5.80 lakh per hectare to ₹ 9.20 lakh per hectare of forest land depending upon the quantity and density of the land in question converted for non-forest use"*

Further, the Compensatory Afforestation Fund Management and Planning Authority (CAMPA) in a letter dated 25 September 2007[53] addressed to Chief Secretaries of all States/Union Territories stated the matter of non-compliance of the order of Supreme Court of India had been viewed seriously and directed that in cases where NPV has not been recovered from the user agencies, their operation should be kept in abeyance.

The MOEF in February, 2009 had revised the rates of NPV, taking into view the ecological role and value of the forests, into six ecological classes as below:

Eco-value	Class and NPV rates (₹ 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

Taking the minimum NPV rate of ₹ 6.57 lakh per hectare, we calculated that the NPV recoverable from the eight cement factories would have been ₹ 43.45 crore as under:

Name of cement company	Area acquired for plant/mining (hectare)	Minimum NPV recoverable at ₹ 6.57 lakh per hectare (₹ in lakh)
1. M/S Star Cement	310.37	2039.13
2. M/S Topcem	73.88	485.39
3. M/S Taj Cement	59.54	391.18
4. M/S Best Cement	22.26	146.25
5. M/S Green Valley Industries(P) Ltd	40.00	262.80
6. M/S Amrit Cement Industries Ltd	30.00	197.10
7. M/S Adhunik Cement Ltd	45.00	295.65
8. M/S Cosmos Cement Ltd	80.33	527.77
Total	**661.38**	**4345.27**

Thus, failure of the State Government to strictly enforce the provisions of the Forest (Conservation) Act, 1980 by allowing cement factories to set up shop in the State without the approval of the Central Government further

[53] CAMPA letter No. 5-2/2006 –FC(Pt) dated 25 September 2007.

compounded by the lack of will to keep their operations in abeyance till the NPV was recovered, led to a revenue loss of ₹ 43.45 crore.

6.5.17 Conclusion

The Performance Audit revealed a number of deficiencies in collection of Receipts. We noticed that the *mahal* system has virtually not earned any revenue for the Department during the period covered by this Performance Audit due to non settlement of the Mahals. As against 41 licensed sawmills there were 164 illegal sawmills in the State. 26 *per cent* of the reserved forests in the JHTD were encroached. The divisions had filed 1,101 cases against encroachers and in not a single case had the courts delivered a verdict. The Department/ Directorate failed to ensure periodic revision of royalty and fees to protect revenue. There was no co-ordination and sharing of information between the Department/Directorate and other government agencies which could have plugged revenue leakages. The Directorate did not prepare the mandatory working plans, required to be approved by the MOEF as per the orders of the Supreme Court, to ensure sustainable management of the State's forests. Steps were not taken to bring parity in the royalty rates of the Department and the District Councils and the GHDC was collecting royalty on minor minerals despite not being allowed to do so. The Department had not taken adequate steps to recover the revenue from FDCM. The Department had also not moved the courts for disposal of seized timbers which may have deteriorated with the vagaries of time. Export fee was not being collected on limestone and the cement factories were set up without forest clearance. The Department was not collecting cess recoverable on limestone extracted which was inexplicable.

6.5.18 Summary of recommendations

We recommend the following to address some of the issues brought out in this Performance Audit:

- The Department may consider introducing a 'single window system' to avoid delay in the settlement of *mahals*.
- The Government may consider setting up a Monitoring Committee whose sole function would be to ensure coordinated, orchestrated and sustained efforts by their staff to stop any illegal saw mill from operating in the State. We also recommend that MOEF's directions of February2004 for tackling encroached be implemented by this take in the right earnest.
- The Department/Directorate should review the rates of royalties and fees biennially to ensure that they are in sync with market conditions.
- Inter-agency meetings may be conducted on a regular basis with other revenue collecting state agencies for exchange of information and

greater coordination in revenue collection efforts and to prevent leakage/evasion of revenue.

- Differential royalty rates on Minerals of the Department and the District Councils may be brought on par early, by resolving the matter with the District Councils.
- The Government may consider withholding financial assistance to the GHADC till it desists from collecting royalty on minor minerals.
- The FDCM should be allowed to lift timber only on payment of the royalty in advance. In case the FDCM does not lift the timber allotted to it within a month, the Directorate should have the option of selling it to private parties.
- The DFOs may be made personally responsible to move courts for orders to dispose off seized timber and other forest produce to prevent their decline in value with the passage of time.

EXECUTIVE SUMMARY

Marginal increase in collection of revenue	In 2010-11, the collection of revenue from Mines and Minerals increased by 8.76 *per cent* over the previous year which was due to revision of royalty on coal and limestone from ₹ 165 and ₹ 45 to ₹ 290 and ₹ 63 respectively.
Internal audit not conducted	The department did not have an internal audit organisation. The internal audit organisation functioning under the Examiner of Local Accounts is responsible to conduct internal audit. However, audit of Mining and Geology Department had never been conducted to evaluate the system of working of the Directorate and to suggest ways and means to plug leakage of revenue.
Negligible recovery by the Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation of royalty, cess etc on coal and limestone with revenue implication of ₹ 238.24 crore in 26 cases. Of these, the Department/ Government accepted audit observation in four cases involving ₹ 6.79 crore but recovered only ₹ 0.05 crore in one case. The recovery position as compared to acceptance of objections was negligible.
Result of audits conducted by us in 2010-11	In 2010-11, we test checked the records of three units relating to receipts from Mines and Minerals and found non/short realisation/levy of royalty cess, penalty etc involving ₹ 136.15 crore in 17 cases. The Department accepted non/short realisation/ levy of royalty, cess and other deficiencies of ₹ 52.65 crore in seven cases during the year 2010-11. An amount of ₹ 5.57 crore was recovered in one case during the year 2010-11.

What we have highlighted in this chapter	In this chapter, we present illustrative cases of ₹ 73.12 crore selected from observations noticed during our test check of records relating to collection of royalty, cess, penalty etc in the office of the Director of Mineral Resources (DMR), Divisional Mining Officer (DMO), Jowai and Williamnagar where we found leakage of revenue due to delay in implementation of revised rate of royalty and evasion of royalty on export of limestone and coal. It is matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action to prevent recurring loss of revenue. We are also concerned that though these omissions were apparent from the records, which were made available to us, the Department was unable to detect these mistakes.
Our conclusion	The Department needs to improve the internal control system and internal audit system should be made functional. Inter departmental co-ordination should be strengthened to address the weakness in the system and avoid omission of the nature detected by us in future. It also needs to initiate immediate action to recover the royalty, cess, penalty etc, pointed out by us; more so in those cases where it has accepted our contention. Arrear revenue may be recovered as arrears of land revenue by initiating certificate proceedings.

CHAPTER VII: MINING AND OTHER NON-TAX RECEIPTS

A- MINES AND MINERALS

7.1 Tax administration

The State of Meghalaya is endowed with rich mineral deposits, particularly coal and limestone. Constitutionally, the State Government is the owner of the minerals and as such receives rent and royalty accruing from grant of prospecting and mining rights to individuals and firms. The Constitution of India, however, empowers the Parliament of India to make laws for regulation of mines and minerals. Under this power, the Central Government enacted the Mines and Minerals (Development and Regulation) (MMDR) Act, 1957, and the Mineral Concession (MC) Rules, 1960. Subsequently, the State Government introduced the Meghalaya Minerals Cess (MMC) Act, 1988 to mobilise additional revenue. In Meghalaya, the royalty and cess on coal were ₹ 165 and ₹ 55 per MT respectively, and royalty and cess on limestone were ₹ 45 and ₹ 20 respectively, with effect from 6 January 2009. The rate of royalty on coal was further revised to ₹ 290 per MT with effect from 1 September 2009 while the cess was withdrawn. The rate of royalty on limestone was revised from ₹ 45 to ₹ 63 per MT from 13 August 2009.

7.2 Trend of receipts

Actual receipts from Mining & Geology Department during the years 2006-07 to 2010-11 alongwith the non-tax receipts during the same period is exhibited in the following table and graph.

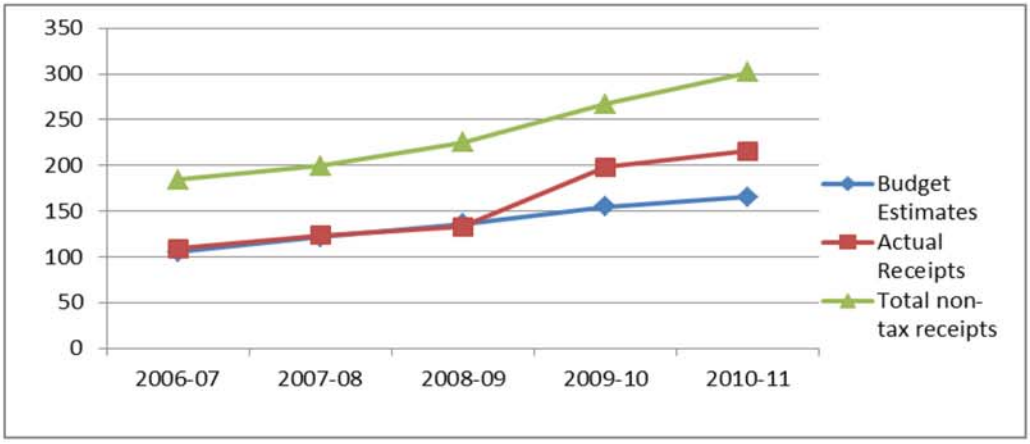
(₹in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2006-07	105.00	109.03	(+) 4.03	4	184.37	59
2007-08	121.43	123.66	(+) 2.23	2	199.35	62
2008-09	135.69	132.73	(-) 2.96	2	225.31	59
2009-10	154.63	198.21	(+) 43.58	28	275.09	72
2010-11	165.44	215.58	(+) 50.14	30	301.69	71

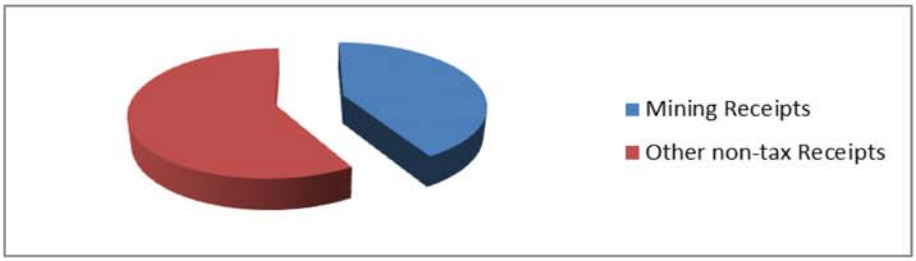
The wide variation between budget estimates and actual collection in the years 2009-10 and 2010-11 shows that the budget is not being realistically framed.

Mines and minerals receipts formed about 59-72 *per cent* of the total non-tax receipts of the State during the last five years.

A line graph of budget estimates, actual receipts and total non-tax receipts may be seen below:



Also a pie chart showing the position of actual mining receipts *vis-à-vis* the other non-tax receipts of the State during the 2010-11 may be seen below:



7.3 Impact of audit reports

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 301.60 crore in 32 paragraphs. Of these, the Department / Government had accepted audit observations in 9 paragraphs involving ₹ 53.30 crore and had since recovered ₹ 5.57 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No	Amount	No	Amount	No	Amount
2006-07	4	13.80	1	0.19	-	--
2007-08	5	21.35	-	-	-	--
2008-09	5	41.12	-	-	-	--
2009-10	10	151.42	1	0.46	-	--
2010-11	8	73.91	7	52.65	1	5.57
Total	**32**	**301.60**	**9**	**53.30**	**1**	**5.57**

Thus, against the accepted cases involving ₹ 53.30 crore, the Department/ Government has recovered an amount of ₹ 5.57 crore which is 10.45 *per cent*.

We recommend that the Department needs to revamp its revenue recovery mechanism to ensure that they could recover atleast the amount involved in the accepted cases.

7.4 Results of audit

Test check of the records of Mining & Geology Department during the year 2010-11 revealed non-realisation of duties, royalties etc., amounting to ₹ 136.57 crore in 17 cases which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-revision of royalty rate	02	15.22
2.	Leakage of revenue	02	55.98
3.	Non-realisation of royalty	05	5.58
4.	Other irregularities	08	59.37
Total		**17**	**136.15**

During the year, the Department accepted non/short realisation/levy of royalty, cess, penalty etc, of ₹.52.65 crore in seven cases, of which ₹ 5.57 crore was recovered in one case.

7.5 Non-compliance of the provisions of the Acts/Rules

The provision of the MMDR Act, 1957 , MC Rules, 1960 and MMC Act, 1988 require levy and payment of :

- Collection of royalty on coal and limestone at rate(s) as prescribed by the GOI from time to time.
- Collection of cess on limestone at prescribed rate.
- Interest at prescribed rate for default in payment of dues.
- Levy of interest due to default in payment of dues.

Non-compliance of the provision of the Act/Rules in some cases as mentioned in the following paragraphs. This resulted in non/short realisation of ₹ 73.91 crore.

7.6 Evasion of royalty on export of coal and limestone

The Directorate of Mineral Resources (DMR), Government of Meghalaya (GOM) is vested with the sole responsibility in the State for the levy and collection, in advance, of (i) royalty on coal and limestone under Section 9(2) of the Mines and Minerals (Development and Regulation) Rules, 1957 and (ii) cess on limestone under Section 3 of the Meghalaya Minerals Cess Act, 1988. Further, in cases where coal has been unauthorisedly transported without prior payment of royalty, penalty in the form of additional royalty at 25 per cent of the royalty value of coal and including the due royalty on coal, is also to be levied and collected at the DMR checkposts.

Revenues from 'mining receipts'[1] made up 58.90, 72.05 and 71.46 *per cent* of the State's non-tax revenues in 2008-09, 2009-10 and 2010-11. Income by way of royalty and cess from coal and limestone *exported* to Bangladesh constituted 18.93, 12.19 and 8.11 *per cent*[2] of the 'mining receipts' in these years respectively and hence, was and continues to be, a significant contributor to revenue under this head.

Given the above position, it would be expected for the DMR to have in place adequate infrastructure by way of strategically located checkposts to prevent and detect irregular transportation and export of coal and limestone without payment of the due royalty and cess besides, established a well laid down procedures for cross verification and regular exchange of information with other governmental agencies to ensure revenue leakages and evasion on this account are minimised. Our past and current findings which are cited below, indicated that the position was otherwise.

7.6.1 Loss of revenue due to absence of a system of exchange and cross verification of information with other agencies

7.6.1.1 Borsora and Dawki villages in Jaintia Hills District have two checkposts each - one belonging to the DMR and the other to the Customs Department (CD), GOI. From data obtained from the CD checkposts at both places, we found that 9.55 lakh MT of coal and 2.48 lakh MT of limestone was exported to Bangladesh through these posts between April 2009 and September 2010. Our verification in October 2010 with the records of the Borsora and Dawki DMR checkposts for the same period however, showed that only 3.98 lakh MT of coal and 0.83 lakh MT of limestone was exported. The DMR checkposts showed less export of 5.57 lakh MT of coal and 1.65

[1] 'mining receipts' includes royalty / additional royalty on coal and royalty / cess on limestone
[2] Figures furnished by the DMR

lakh MT of limestone. This involving royalty of ₹ 16.15 crore[3]. Besides; penalty and cess was also leviable.

7.6.1.2 Mention was made in the Comptroller & Auditor General's Audit Reports (ARs) 2007-08, 2008-09 and 2009-10 of the GOM about the evasion of revenue on account of export of minerals through the checkpost as mentioned in the following table:

Quantity in lakh MT

AR / Para No.	Period	Quantity of minerals exported as per CD checkposts' records		Quantity of minerals exported as per DMR checkposts' records		Difference (Quantity)		Revenue evaded (₹ in crore)
		Coal	Limestone	Coal	Limestone	Coal	Limestone	
2007-08 6.13	Apr '05 to Mar '07	11.74	12.66	10.29	5.89	1.45	6.77	6.37
2008-09 7.6	Apr '07 to Mar '09	17.20	31.48	12.79	22.19	4.40	9.29	13.73
2009-10 7.7	Apr '09 to Oct '09	3.92	0.98	0.38	-	3.55	0.98	13.47
TOTAL		**32.86**	**45.12**	**23.46**	**28.08**	**9.40**	**17.04**	**33.57**

Thus we had reported the evasion of royalty, cess and penalty to the tune of ₹ 33.57 crore in the above Audit Reports. However the Department has not checked the evasion resulting in further loss of revenue of ₹ 21.51 crore[4] .

7.6.1.3 Our analysis revealed that during 2007-08 to 2010-11 showed that a total of 42.41 lakh MT and 47.60 lakh MT of coal and limestone had been exported through the CD checkposts, while the corresponding figures were 27.74 lakh MT and 27.44 lakh as per the records of the DMR checkposts. Thus, the extent of underreporting by the DMR checkposts was as high as 35.30 *per cent* for coal and 39.27 *per cent* for limestone.

7.6.1.4 We would like to underscore the fact that all the above cases were detected by us through a simple cross-check of the information we requested for and obtained from the CD checkposts with the records of the DMR checkposts. We had therefore, accordingly recommended in **paragraph No 7.7** of the Comptroller and Auditor General's Audit Report, 2009-10 that "*the Government may consider putting in place a mechanism for coordination/reconciliation of the figures of the exports that were liable to pay royalty and were taking place through DMR checkposts and CD checkposts to check the evasion of royalty*." We also noted that in a meeting held on 19 August 2010 under the chairmanship of the Chief Secretary, GOM,

[3] 5.57 lakh MT @ ₹ 290 per MT = ₹ 16.15 crore

[4] ₹ 21.51 crore + ₹ 33.57 crore (It is a very conservative figure since the individual amounts were worked out only for specific periods ranging from seven to twenty four months).

the Principal Secretary (PS), Mining and Geology Department stated that "*coordination with the Forest Department and Customs authorities has been initiated with a view to obtaining the actual details on export of coal and limestone to Bangladesh*." However, we did not find any evidence in our subsequent audits of the DMR or its various checkposts that our recommendation had been implemented or that the assertion of the PS was true.

7.6.2 Loss of revenue due to non-establishment of checkposts

Checkposts are required at strategic locations across the State to ensure that no minerals are exported without payment of due royalty and cess.

7.6.2.1 We noted that since 1948, the CD had checkposts in Shella Bazar and Bholaganj - villages bordering Bangladesh in East Khasi Hills district. The DMR however, was yet to establish its checkposts at these locations. Information obtained by us from the CD with respect to Shella Bazar and Bholaganj checkposts showed that 28.47 lakh MT of limestone was exported to Bangladesh during the period from 01 April 2009 to 30 September 2010. Since the DMR did not have checkposts at these places[5], it was in no position to collect royalty and cess on limestone exported through these locations and consequently there was a revenue loss ₹ 20.35 crore[6] in just 18 months alone.

7.6.2.2 In CAG's Audit Reports, as indicated in the table below, we had also commented on the revenue loss due to the absence of DMR checkposts at Shella Bazar and Bholaganj.

AR /Para No.	Quantity of limestone exported through Shella Bazar and Bholaganj CD checkposts (MT in lakh)	Period	Revenue loss (₹ in crore)
2007-08 6.13	11.33	April 2005 to March 2007	5.67
2008-09 7.6	21.36	April 2007 to March 2009	10.68

Failure of the DMR to establish its presence even 63 years after the CD had set up its checkposts at these two places has led to a recurring loss of revenue for the State.

7.6.2.3 We noted that there are nine[7] CD checkposts in the State through which coal and limestone are exported to Bangladesh as against DMR checkposts at only four of these same locations[8]. The quantum of loss would

[5] Coal is not being exported through these two checkposts
[6] Upto 12.08.09 @ ₹ 45 per MT
From 13.08.09 @ ₹ 63 per MT.
[7] Dawki, Borsora, Shella Bazar, Bholaganj, Balat, Dalu, Mahendraganj, Baghmara, Gasuapara
[8] Borsora, Dawki, Gasuapara, Mahendraganj

therefore, be far higher if all the exports of coal and limestone that had taken place through the five CD checkposts where the DMR had none, is taken into account.

7.6.2.4 In 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10, the years in which the evasion and non levy of royalty, cess and penalty pointed out in paras **7.6.1.1**, **7.6.1.2**, **7.6.2.2** and **7.6.2.3** occurred, the total revenue earned by the State from the export of coal and limestone was ₹ 627.70 crore. The evasion of ₹ 91.78 crore, even though calculated with reference to the extent of the limited scope and period of audit coverage in these paras, represented 14.60 *per cent* of the total royalty collected from these two minerals in these five years.

We recommend that the Department may consider:

(i) instituting a mechanism for regular and timely exchange of information and data among the various concerned state/central Government agencies to stem revenue leakages and,

(ii) obtaining particulars from the CD of minerals exported through the five locations where the DMR does not have checkposts so as to be able to take a considered decision to set up this facility at these places.

After we pointed out the lapses, the Department stated in August 2011 that the MGD was examining the matter of opening more checkposts at all the trade routes to prevent leakage of revenue. The Government also, accepted the fact that export figure as maintained by the CD checkposts was more than that maintained by the MGD checkposts.

7.7 Revenue loss due to delays in issue of notifications

Section 9(3) of the Mines and Minerals (Development and Regulation) Act, 1957 confers upon the Government of India (GOI) the power to enhance or reduce the rate at which royalty shall be payable for any mineral with effect from such date as may be specified by the GOI.

Consequent upon the enhancement or reduction notified by the GOI, it is the responsibility of the Mining and Geology Department (MGD), GOM to in turn, notify the revised rate in the State. It is hence, important that where the GOI enhances the rate of royalty, the MGD should promptly notify the same so to prevent any loss of revenue.

7.7.1 The GOI revised the royalty on limestone from ₹ 45 to ₹ 63 per metric tonne (MT) with effect from 13 August 2009. We observed however, that the MGD notified the revised rate only on 28 September 2010 after a lapse of 13 months, leading to a revenue loss of ₹ 6.05 crore as detailed below:

Sl. No.	Source of information	Quantity of limestone extracted September 2009 to August 2010 (MT in lakh)	Revenue loss[9] (₹ in crore)
1.	Directorate of Mineral Resources[10], GOM	30.93	5.57
2.	Forests & Environment Department[11], GOM	2.69	0.48
		Total	**6.05**

After we pointed out the case, the Department stated in August 2011 that ₹ 5.57 crore had been recovered. However, recovery of ₹ 0.48 crore was awaited.

7.7.2 The GOI revised the royalty on coal from ₹165 to ₹130 per MT plus five *per cent* of pithead price of coal with effect from 01 August 2007. In accordance with this formula, the GOM was required to revise the royalty on coal to ₹ 290 per MT[12]. The MGD only on 24 August 2009 however, notified the revised rate of royalty with effect from 01 September 2009. In para 7.6 of the CAG's Audit Report 2009-10, we had pointed out that as a result of this delay, there was a revenue loss of ₹ 130.78 calculated by us on the basis of Coal Transport Challans (CTC) for 104.62 lakh MT of coal issued by the DMR[13] during August 2007 to March 2009. Our update on this position subsequent to this period i.e. April 2009 to August 2009, showed that during this time the DMR had further issued CTCs for 13.55 lakh MT of coal at the pre-revised rate of ₹165 which resulted in an additional revenue loss ₹ 16.93 crore. Thus, the delay of 24 months on the part of the MGD to notify the revised rate of royalty on coal led to a total loss of ₹ 147.71 crore to the State.

In paragraph 5.11 of the CAG's Audit Report 2003-04, we had similarly pointed out that the GOI revised the royalty on coal from ₹ 120 to ₹ 165 per MT from 16 August 2002 but the MGD notified the applicability of the revised rate only from June 2003 which led to revenue loss of ₹ 18.56 crore.

Thus the habitual failure of the MGD to promptly notify the revised rates of royalty as announced by the GOI from time to time on limestone and coal was not in consonance with sound financial polices particularly considering that these two minerals account for the major share of non-tax revenue of the GOM.

[9] Quantity extracted X (₹63 – ₹ 45)

[10] In Meghalaya, the Directorate of Forests and Environment collects royalty on limestone extracted from areas under its control. The Directorate of Mineral Resources collects royalty on limestone extracted from the remaining areas in the State.

[11] Upto March 2010

[12] ₹ 130 + 5% Pit head price =₹ 130 + 5% of ₹ 3200 =₹ 130 + ₹ 160 = ₹ 290.

[13] In Meghalaya, royalty on coal is collected by the Directorate of Mineral Resources only.

The Department stated in August 2011 that the delay was due to notification of the new formula by the GOI for fixation of royalty which contained two unknown components *i.e.*, the price and the grade of Meghalaya coal. The reply is not tenable as the new formula for fixation of royalty is applicable to all the States and the MGD should have had in place the price as well as the grade of Meghalaya coal.

We recommend that the Government may institute an enquiry to fix responsibility for the delays in notifying the revised rates of royalty on limestone and coal and evolve a mechanism to ensure the revision of rates of royalty on coal and limestone are promptly issued to prevent loss of revenue.

7.8 Short realisation of royalty on limestone

The Government of Meghalaya vide notification dated 14 October 2004, revised the rate of royalty on limestone from ₹40 to ₹45.

Scrutiny of annual return in Form H8 submitted by a lessee[14] revealed that the lessee paid royalty on limestone extracted at prescribed rate except during the intervening period between January and June 2009. The lessee extracted 69366.50 MT of limestone during the aforesaid period against which royalty of ₹ 31.21 lakh was payable. The lessee however, paid royalty of only ₹ 27.14 lakh. The DMR neither demanded from the lessee to pay the balance royalty nor did the lessee pay the amount. This resulted in short realisation of royalty of ₹ 4.07 lakh.

After we pointed out the case, the Department stated in August 2011 that a demand notice had been issued to the KLMCL. Recovery of the amount is however, awaited.

7.9 Non-levy of interest

Rule 64A of the Mineral Concession Rules, 1960 provides that if the dues payable by the 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.

Our scrutiny of the records of the DMR in November 2009 revealed that M/S Lafarge Umiam Mining Private Ltd. (LUMP) company transported 10,57,893 MT of limestone between July and December 2009 for which it was liable to pay royalty and cess of ₹ 9.87 crore on or before 31 January 2010. LUMP paid ₹8.38 crore within the due date and the balance of ₹ 1.49 crore was paid belatedly on 10 June 2010 *i.e.*, seventy days after the sixtieth day from the due date of 31 January as specified in the aforesaid rule. For the belated

[14] Komorrah Limestone Mining Company Limited

payment, interest of ₹ 6.84 lakh though leviable was not levied.

After we pointed out the case, the Department stated in August 2011 that a demand notice had been issued to LUMP. Recovery of the amount is, however, awaited.

7.10 Irregular removal of limestone

Section 6(2) of the Meghalaya Minerals Cess Act, 1988 stipulates that no person shall remove or transport any minerals from any mine in the State unless tax due under the Act has been paid. Section 7 of the Act lays down that if any person defaults in payment of the tax, the prescribed authority may impose a penalty not exceeding the amount of the tax in arrears. Section 8 of the Act states that if the tax including penalty is not paid within the time prescribed, the authority shall realise the amount by selling the minerals belonging to such person and if the sum cannot be realised then the same is recoverable as arrears of land revenue. Cess on limestone has been fixed at ₹ 5 upto 05 January 2009 and ₹ 20 thereafter.

While auditing the records of the Divisional Mining Officer (DMO), Jowai in December 2010, we noticed that two cement manufacturing companies transported limestone from the mines without payment of cess.

M/s Cement Manufactur-ing Company Ltd extracted 9,13,851.256 MT[15] of limestone between January 2009 and June 2010, on which cess of ₹ 1.82 crore[16] was not paid. Besides, M/s Hills Cement Company Limited purchased 71,878.87 MT of limestone between August 2009 and June 2010 from private parties. The Company paid cess on 44,182 MT of limestone and the balance 27,696.87 MT of limestone was transported without payment of cess of ₹ 5.54 lakh[17].

The irregular action of the two companies led to evasion of cess of ₹ 1.88 crore. Moreover for default in payment of the cess, the companies were also liable to pay penalty of ₹ 1.88 crore. After being point out by us the Director of Mineral Resources (DMR) in September and December 2010 informed the company about the non-payment of the cess. As of April 2011, the DMR had also not taken action to recover the dues. Thus failure of the DMO to initiate

[15] From own leased area = 256316.36 MT
From private owner = 657537.896 MT
913854.256 MT

[16] Cess payable
8414.376 MT @ ₹ 5 per MT = ₹ 2,072
905439.88 MT @ ₹ 20 per MT = ₹ 1,81,08,798
Total = ₹ 1,81,50,870

[17] Cess payable @ ₹20 per MT X 27,696.87 MT = ₹ 5,53,937

prompt action to recover the dues led to non realisation of revenue of ₹ 3.76 crore including plenty of 1.88 crore

After we pointed out the cases, the Department stated in August 2011 that action had already been initiated against both the companies for payment of cess. The progress made in recovery of the dues is however, awaited.

7.11 Evasion of royalty on coal

Section 9(2) of the Mines and Minerals (Development and Regulation) Act, 1957 stipulates that every licensee or permit holder or lessee shall pay royalty as per rates prescribed in the Act in respect of any mineral removed or consumed by him otherwise, additional royalty at 25 per cent of the royalty is to be charged from him at the checkposts in addition to the royalty.

In Umkiang in Jaintia Hills District and Dainadubi in East Garo Hills, the checkposts of the Taxation Department (TD) are adjacent to the checkposts of the Mines and Minerals Department (MMD). The responsibility of the TD checkpost is to collect *tax* while that of the MMD checkpost is to collect *royalty* due to coal, limestone, etc. The checkposts of both the Departments maintain independent records of the quantity of these minerals transported through them, royalty/tax collected, etc.

7.11.1 We noted from information obtained from the Umkiang TD checkpost that 8,99,764 MT of coal was transported between April 2008 and March 2010 through the checkpost. Our cross verification of this figure with the records of the Umkiang MMD checkpost however showed that 8,66,930 MT of coal was transported through this checkpost during the same period. Thus, 32,834 MT of coal on which royalty and additional royalty was required to be collected, escaped the notice of the MMD checkpost. This resulted in evasion of royalty of ₹ 1.19 crore.

7.11.2 We also noticed during test check of the records of the Divisional Mining Officer (DMO), Williamnagar in March 2011 that 55,602 trucks carrying 10,36,673 MT of coal crossed the Dainadubi MMD checkpost between September 2009 and March 2010. We cross verified these figures with those of the Dainadubi TD checkpost at and found that 59,393 trucks carrying 11,23,055 MT of coal crossed the TD checkpost during the aforesaid period. Thus, 86,382 MT of coal passed undetected through MMD checkpost resulting in loss of revenue of ₹ 3.13 crore.

7.12 Short realisation of royalty

The royalty on limestone was ₹ 45 per MT upto 12 August 2009 and ₹ 63 per MT thereafter. In addition, cess is also leviable on sale of limestone under Section 3 of the Meghalaya Minerals Cess Act, 1988.

We noticed during scrutiny of records of the DMO, Jowai in December 2010 that 1,112 trucks carrying 16,680 MT of coal pertaining to 12 dealers were allowed to cross Mookyndur checkpost between 01 September and 07 October 2009 on the strength of CTCs issued earlier instead of MTCs. The officer-in-charge of the checkpost neither insisted on production of MTCs nor realised the differential amount of royalty at ₹ 125 per MT and additional royalty at 25 *per cent* of the revised rate of royalty from these trucks which crossed the checkpost. This resulted in short realization of royalty (including additional royalty) of ₹ 32.94 lakh[18].

After we pointed out the case, the Department stated in August 2011 that the demand notices had already been issued to all the 12 dealers for payment of royalty at revised rate. Payment of royalty is, however, awaited.

7.13 Non-realisation of royalty on limestone

The Government of Meghalaya, Mining and Geology Department revised the rate of royalty on coal from ₹ 165 to ₹ 290 with effect from 01 September 2009. Accordingly, the Director of Mineral Resources (DMR) directed all coal traders to surrender the unused Coal Transport Challans (CTC) issued earlier and obtain new Mineral Transport Challans (MTC) on payment of royalty at the revised rate.

We noticed during audit of the DMO, Williamnagar in March 2011 that as per Cess Collection Register, 1.10 lakh MT of limestone was extracted and removed by permit parties between April 2008 and March 2010 on which cess amounting to ₹ 14.59 lakh was realised. However we cross-verified the entries made in the Royalty Collection Rgister and found that royalty under section 9(2) of the rules ibid was not realised by the DMO before dispatch of the limestone. Thus, due to non-realisation of royalty, there was non-relisation of revenue of ₹ 54.32 lakh[19].

[18] Royalty @ ₹ 125 X 16680 MT =₹ 2085000
Additional royalty = 25 % of (₹ 290 X 16680 MT) = ₹1209300
Total=₹ 3294300

[19] 82012 MT upto August 2009 @ 45 per MT = ₹ 36,90,540
27645 MT between September 2009 and March 2010 @ 63 per MT = ₹ 17,41,635
Total = ₹ 54,32,175 i.e., ₹ 54.32 lakh

After we pointed out the case, the Department stated in August 2011 that action had already been initiated to realise royalty as well as cess on limestone. Recovery has not been intimated.

B- STATE LOTTERIES

7.14 Impact of audit reports

During the last five years (including the current year's report), audit through its audit reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, with revenue implication of ₹ 7702.14 crore in one paragraph. Of these, the Department/Government had accepted audit observations in one paragraph and 4 sub-paragraphs involving ₹ 1563.69 crore and had since recovered ₹ 2.62 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No	Amount	No	Amount	No	Amount
2006-07	1	6,088.95	--	29.31[20]	--	2.62[21]
2007-08	--	--	--	--	--	--
2008-09	--	--	--	--	--	--
2009-10	--	--	--	--	--	--
2010-11	1	1613.19	1	1534.38	--	--
Total	**2**	**7702.14**	**1**	**1563.69**	**--**	**2.62**

Thus, against accepted cases involving ₹ 1563.69 crore, the concerned departments/Government recovered an amount of ₹ 2.62 crore only, which is only 0.17 *per cent*.

We recommend that the Department revamp its revenue recovery mechanism to ensure that at least the revenue involved in the accepted cases is promptly recovered.

7.15 Non-compliance of the provisions of the Acts/Rules

The provisions of the Act[22] and Rules made thereunder require levy and payment of:

- Total prize money not less than 50 *per cent* of the total value of the tickets printed for each draw.

Non compliance of the provisions of the Act/Rules as mentioned in the following paragraph resulted in non/short realisation of ₹ 78.81 crore.

[20] 4 sub-paragraphs of the review on "Receipts under State Lottery"
[21] 1 sub-paragraph of the review on "Receipts under State Lottery"
[22] The Lottery Regulation Act, 1998

7.16 Loss of revenue due to execution of faulty agreement

The Lottery (Regulation) Act, 1998 enacted by the GOI lays down the conditions under which state lotteries are to be organised and for this purpose, empowered the state governments to make rules to carry out the provisions of the Act ibid. The Meghalaya State Lottery Rules, 2002 framed as a consequence of this Act inter alia stipulate that

- *the category of lotteries to be organised by the GOM were to be **daily**, **weekly** or **bumper** [Rule 2(m)(ii)];*

Our scrutiny of the records of the Director of State Lotteries (DSL), Meghalaya in April 2009 revealed that due to an agreement entered into in August 2004 by the DSL with M/s J.C. Enterprise (distributor) who was appointed as a lottery distributor resulted in loss of revenue to the public exchequer as detailed below:

7.16.1 Schedule-I of the agreement required the distributor to pay the Government ₹ 600 per draw for organising weekly draws and ₹ 20,000 per draw for all other schemes.

We obtained information from the DSL, which indicated that the distributor organised 40,627 daily draws of 13 different schemes between April 2004 and March 2008 and paid ₹ 2.44 crore to the Government at ₹ 600 per draw. Since the distributor did not organise weekly draws, he was liable to pay ₹ 81.25 crore at ₹ 20,000 per draw instead of ₹ 600. This resulted in short payment of ₹ 78.81 crore by the distributor.

The DSL disagreed (June 2011) with our contention stating that all draws conducted by the distributor were weekly draws. The reply is not acceptable as the sales accounts submitted by the distributors irrefutably proved that the distributor had organised daily draws and therefore, he was liable to pay ₹ 20,000 per draw.

7.16.2 Loss due to inconsistency of the agreement with Meghalaya State Lottery Rules

We further noted that clause 18(ix) of the agreement with the distributor stipulated that the total prize money of each draw shall not be less than 50 *per cent* of the of sale proceeds of tickets of each draw. This clause was not in consonance with Rule 9(1) of the Meghalaya State Lottery Rules, 2002 which required that the total prize per draw including bonus incentive to Stockists /Agents/Sellers shall not be less than 50 *per cent* of the total value of the tickets printed for each draw.

We observed that the distributor organised 49,185 draws between April 2004 and March 2008 in respect of 18 lottery schemes and printed 3.05 crore tickets valued at ₹ 4676.18 crore for different lottery schemes for the aforesaid period and disbursed ₹ 803.71 crore as prize money, against ₹ 2338.09 crore as per Rule. Thus the execution of a faulty agreement resulted in the distributor getting an undue benefit of ₹ 1534.38 crore. However, since Rule 12(5) of the Meghalaya State Lottery Rules, 2002 provide that all unclaimed prize money shall be the property of the GOM and this condition was also incorporated as clause 18(ix) of the agreement with the distributor, the DSL should have taken steps to recover this amount.

The DSL (June 2011) while admitting to the above fact failed to intimate the action being contemplated to recover the amount from the distributor.

7.16.3 We further noted that the DSL had invited offers for the distribution of the State's lotteries on 27 June 2003 and M/s J.C. Enterprise was one of the five lottery distributors appointed on that occasion. Since the agreements entered into by the DSL were all exactly identical with the one entered into with M/s J.C. Enterprise, we had, in May 2011, called for from the DSL the details of lottery draws organised by the four other distributors. The DSL in June 2011 expressed its inability to furnish the information stating that the *"same are not available in the office"*.

We reported the matter to the Excise, Registration, Taxation & Stamps Department, GOM in June 2011; reply was awaited (September 2011).



Shillong
The

(A.W.K. Langstieh)
Principal Accountant General (Audit)
Meghalaya

Countersigned



New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India

Appendix-I

Details showing mahals remaining unoperated and the consequent revenue loss
(Reference: Paragraph 6.5.7.1)

Year	No. of notified *mahals* in the State at the beginning of the year				No. of notified *mahals* not operated during the year				Annual revenue potential (₹ in lakh)				Actual revenue realized (₹ in lakh)			
	KHTD	JHTD	GHTD	Total	KHTD	JHTD	GHTD	Total	KHTD	JHTD	GHTD	Total	KHTD	JHTD	GHTD	Total
2005-06	15	1	1	17	15	1	1*	17	37.41	3.20	2.85****	43.46	-	-	-	-
2006-07	15	1	1	17	15	1	1**	17	37.42	3.20	0.62	41.24	-	-	0.31	0.31
2007-08	15	3	1	19	15	3	1	19	37.41	8.00	--	45.41	-	-	-	-
2008-09	15	3	1	19	15	3	1	19	37.42	8.00	7.11	52.53	-	-	-	-
2009-10	15	3	1	19	15	3	1***	19	37.41	8.00	8.51	53.92	-	-	-	-
2010-11	15	3	1	19	15	3	1	19	37.42	8.00	2.00	47.42	-	-	-	-
								Total	**224.49**	**38.40**	**21.09**	**283.98**	**-**	**-**	**0.31**	**0.31**

*Although FDCM was awarded the *mahal*, it did not operate it.
**Against accepted bid of ₹ 0.62 lakh, bidder deposited ₹ 0.31 lakh but did not operate the *mahal*.
***Highest bid of ₹ 8.51 lakh accepted but bidder did not deposit amount as his plea for reduction of the offered value was turned down by the Directorate
**** Calculated at ₹ 3 per kg (*phuljharu*) for 95,000 kg.

Appendix II

Details showing loss due to non-payment of royalty and export fee on stone chips exported outside the State
(Reference: Paragraph 6.5.12.2)

(Rupees in lakh)

Quantity of stone chips exported outside the State (in cum)				Royalty involved @ ₹ 80 per cum (₹)	No. of trucks carrying stone chips for export			Export fee involved @ ₹ 300 per truck load (₹)	Total royalty and export fee involved (col.5 plus col.9) (₹)
Year	Name of assessees		Total		Name of assessees		Total		
	M/S Capricorn Stone Products, Mendipathar	M/S Milestone Concrete (P) Ltd, Adokgre			M/S Capricorn Stone Products Mendipathar	M/S Milestone Concrete (P) Ltd Adokgre			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
2005-06	46,194.37	13881.60	60075.97	48.06	2076	701	2777	8.33	56.39
2006-07	123216.32	23605.60	146821.92	117.46	6186	1164	7350	22.05	139.51
2007-08	113677.19	36488.00	150165.19	120.13	6207	1675	7882	23.65	143.78
2008-09	112090.24	65732.80	177823.04	142.26	6126	2759	8885	26.66	168.92
2009-10	92448.82	66044.80	158493.62	126.79	5071	2714	7785	23.36	150.15
2010-11	-	4079.80	4079.80	3.26	-	292	292	0.88	4.14
Total	**487626.94**	**209832.60**	**697459.54**	**557.96**	**25066**	**9305**	**34971**	**104.93**	**662.89**

Source: *Records furnished by Superintendent of Taxes, East Garo Hills, Williamnagar.*

APPENDIX - III

Details showing differential royalty rates of State Forest Department and the District Councils

(Reference: Paragraph 6.5.12.3)

Sl. No	Forest produce	Royalty of State Forest notified under No.FOR,58/90/Part/50 dated 12 November 1998		Royalty of KHADC notified under No.DC XIV(E)1/2005/6/153 dated 31 March 2005		Difference between State and KHADC royalty rates (+) State Forest higher (-) District Council higher		Percentage of variation between State and KHADC. (+) State Forest higher[1] (-) District Council higher[2].		Royalty of JHADC notified under No.JHADC/FOR/99/2005/2 dated 14 February 2007		Difference between State and JHADC royalty rates (+) State Forest higher (-) District Council higher		Percentage of variation between State and JHADC. (+) State Forest higher[3] (-) District Council higher[4].	
		Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)	Minimum (₹)	Maximum (₹)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1.	Timber (logs)														
	(a) Teak	4837 per cum	8107 per cum	950 per cum	1185 per cum	(+) 3887	(+) 6922	(+) 409	(+) 584	750 per cum	900 per cum	(+) 4087	(+) 7207	(+) 545	(+) 801
	(b)Carpinus	4500 per cum	4500 per cum	1185 per cum	1185 per cum	(+) 3315	(+) 3315	(+) 280	(+) 280	900 per cum	900 per cum	(+) 3600	(+) 3600	(+) 400	(+)4 00
	(c)Other species	670 per cum	3800 per cum	35.45 per cum	263.25 per cum	(+) 634.55	(+) 3536.75	(+) 1790	(+) 1343	25 per cum	200 per cum	(+) 645	(+) 3600	(+) 2580	(+) 1800
2.	Bamboo	15 per hundred	250 per hundred	8 per hundred	100 per hundred	(+) 7	(+) 150	(+) 88	(+) 150	400 per hundred	400 per hundred	(-) 385	(-) 150	(-) 2567	(-) 60
3.	Broomstick (Green)	300 per quintal	300 per quintal	36 per quintal	36 per quintal	(+) 264	(+) 264	(+) 733	(+) 733	36 per quintal	36 per quintal	(+) 264	(+) 264	(+) 733	(+) 733
4.	Poles	12 per piece	72 per piece	2 per piece	11.25 per piece	(+) 10	(+) 60.75	(+)500	(+) 540	--	--	--	--	--	--
5.	Canes	20 per 100 metre	40 per 100 metre	10 per 100 metre	10 per 100 metre	(+) 10	(+) 30	(+) 100	(+) 300	800 per 100 metre	800 per 100 metre	(-) 780	(-) 760	(-) 3900	(-)1900
6.	Thatch grass	18 per 100 bundles	75 per 100 bundles	15 per 100 bundles	15 per 100 bundles	(+) 3	(+) 60	(+) 20	(+) 400	--	--	--	--	--	--
7.	Toko	4 per 1000	4 per 1000	20 per 1000	20 per 1000	(-) 16	(-) 16	(-) 400	(-) 400	--	--	--	--	--	--
8.	Dhup wood	2500 per tone	2500 per tonne	126 per tonne	126 per tonne	(+) 2374	(+) 2374	(+) 1884	(+) 1884	120 per tone	120 per tonne	(+) 2380	(+) 2380	(+) 1983	(+) 1983
9.	Charcoal	60 per quintal	60 per quintal	30 per quintal	30 per quintal	(+) 30	(+) 30	(+) 100	(+) 100	14 per quintal	14 per quintal	(+) 46	(+) 46	(+) 329	(+) 329
10.	Tezpatta	300 per quintal	300 per quintal	20 per quintal	20 per quintal	(+) 280	(+) 280	(+) 1400	(+) 1400	20 per quintal	20 per quintal	(+) 280	(+) 280	(+) 1400	(+) 1400

[1] State Forest higher (+)
Column 7 ÷ 5 X 100 = percentage of variation (minimum) in column 9
Column 8 ÷ 6 X 100 = percentage of variation (maximum) in column 10

[2] District Councils higher (-)
Column 7 ÷ 3 X 100 = percentage of variation (minimum) in column 9
Column 8 ÷ 4 X 100 = percentage of variation (maximum) in column 10

[3] State Forest higher (+)
Column 13 ÷ 5 X 100 = percentage of variation (minimum) in column 15
Column 14 ÷ 6 X 100 = percentage of variation (maximum) in column 16

[4] District Councils higher (-)
Column 13 ÷ 3 X 100 = percentage of variation (minimum) in column 15
Column 14 ÷ 4 X 100 = percentage of variation (maximum) in column 16