

CHAPTER IV

REVENUE RECEIPTS

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by the Government of Manipur during the year 2008-09, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

		(Rupees in crore)				
		2004-05	2005-06	2006-07	2007-08	2008-09
I.	Revenue raised by the State Government					
	• Tax revenue	81.40	95.00	121.56	147.45	170.06
	• Non-tax revenue	69.75	76.46	181.04	164.71	253.46
	Total:	151.15	171.46	302.60	312.16	423.52
II.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes	287.02	342.09	436.33	550.40	580.81 ¹
	• Grants-in-aid	1,304.59	1,895.40	2,123.80	2,645.71	2868.28
	Total:	1,591.61	2,237.49	2,560.13	3,196.11	3449.09
III.	Total receipts of State Government (I+II)	1,742.76	2,408.95	2,862.73	3,508.27	3872.61
IV.	Percentage of I to III	9	7	11	9	11

The above table indicates that during the year 2008-09, the revenue raised by the State Government was eleven *per cent* of the total revenue receipts (Rs. 3,872.61 crore) against nine *per cent* in the previous year. The balance was from the Government of India.

4.1.2 The following table presents the details of tax revenue raised during the years 2004-05 to 2008-09:

¹ For details refer "tax revenue" of statement 11, detailed account of revenue by minor heads of the Finance Account of the Government of Manipur, 2008-09. The amount under the minor head 901 - share of net proceeds assigned to the state booked under the major heads 0020 - Corporation tax, 0028-other taxes on income and expenditure, 0032 - taxes on wealth, 0037 - Union excise duty, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services under 'A-tax revenue' have been excluded from the revenue raised by the state and included in the state's share of divisible Union taxes in this statement.

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+) or decrease (-) in 2008-09 over 2007-08
1.	Sales tax/VAT	54.73	71.17	96.64	120.76	141.38	(+) 17.08
2.	State excise	3.05	3.26	3.62	3.75	3.91	(+) 4.27
3.	Stamps and registration fees	2.20	2.81	2.83	2.93	3.18	(+) 8.53
4.	Taxes and duties on electricity	4.95	0.27	0.19	²	0.39	(+) 43,233.33
5.	Taxes on vehicles	3.35	3.34	3.19	3.57	4.03	(+) 12.89
6.	Taxes on goods and passengers	0.71	0.68	0.60	0.76	0.80	(+) 5.26
7.	Other taxes on income and expenditure	11.52	11.99	13.30	14.73	15.46	(+) 4.96
8.	Other taxes and duties on commodities and services	0.21	0.16	0.18	0.20	0.13	(-) 35.00
9.	Land revenue	0.68	1.32	1.01	0.75	0.78	(+) 4.00
	Total	81.40	95.00	121.56	147.45	170.06	(+) 15.33

There was an overall increase of 15.33 *per cent* in tax revenue raised during 2008-09 as compared to 2007-08.

The reasons for variation in receipts for 2008-09 from that of 2007-08 in respect of principal heads of revenue as furnished by the concerned departments were as under:

Sales tax/VAT: The increase in revenue collection was attributed to increase in the registration of new dealers.

Taxes and duties on electricity: The increase in revenue realised was attributed to recovery of Manipur tax from the National Hydro Electric Power Corporation, Loktak.

Taxes on vehicles: The increase in revenue was attributed to increase in the registration of new vehicles.

Other taxes and duties on commodities and services: The decrease in revenue was attributed to irregular cinema shows.

4.1.3 The following table presents the details of major non-tax revenue raised during the years 2004-05 to 2008-09:

² Rs. 9,000 only.

(Rupees in crore)

Sl. No.	Head of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase(+)/ decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	6.40	6.14	35.05	27.61	39.99	(+) 44.84
2.	Housing	0.98	1.11	0.68	1.72	1.30	(-) 24.42
3.	Water supply and sanitation	1.58	1.69	1.39	1.58	6.89	(+) 336.08
4.	Forestry and wild life	0.74	1.49	1.52	1.45	1.02	(-) 29.66
5.	Education, Sports, Art and Culture	0.82	0.97	0.94	0.90	0.91	(+) 1.11
6.	Miscellaneous general services	³	6.62	82.46 ⁴	54.24 ⁵	92.77 ⁶	(+) 71.04
7.	Power	54.41	49.87	40.24	62.29	88.28	(+) 41.72
8.	Major and medium irrigation	1.13	1.97	7.85	5.26	8.00	(+) 52.09
9.	Medical and public health	0.25	0.29	0.24	0.25	0.52	(+) 108.00
10.	Co-operation	0.13	0.14	0.12	0.12	0.16	(+) 33.33
11.	Public works	1.60	3.09	7.83	6.14	7.96	(+) 29.64
12.	Police	0.34	0.64	0.57	0.42	3.36	(+) 700.00
13.	Other administrative services	0.51	0.70	0.63	1.07	0.59	(-) 44.86
14.	Crop husbandry	0.04	0.07	0.30	0.10	0.07	(-) 30.00
15.	Others	0.82	1.67	1.22	1.56	1.64	(+) 5.13
Total		69.75	76.46	181.04	164.71	253.46	(+) 53.88

The non-tax revenue increased from Rs. 164.71 crore in 2007-08 to Rs. 253.46 crore in 2008-09 showing an increase of 53.88 per cent.

The reason for variation in receipts for 2008-09 from that of 2007-08 in respect of principal heads of revenues as furnished by the concerned departments were as under:

Forestry and wild life: The decrease in revenue was attributed to fluid law and order situation and the frequent bandhs and strikes which resulted in setback in transportation of forest produce.

Miscellaneous general services: The increase in revenue was attributed to sales proceeds of statistical publications.

Power: The increase in revenue was attributed to heavy collection of unofficial interchange⁷ (UI) charges.

³ Rs. 6,413 only.

⁴ Includes debt relief of Rs. 75.08 crore given by Government of India on repayment of consolidated loan.

⁵ Includes debt relief of Rs. 37.54 crore given by Government of India on repayment of consolidated loan.

⁶ Includes debt relief of Rs. 37.54 crore given by Government of India on repayment of consolidated loan.

⁷ A term used by the department denotes recovery of energy charges from the states to whom electricity was supplied.

Major and medium irrigation: The increase in revenue was attributed to higher collection of interest from mobilisation and machinery advance of the Thoubal Project.

The other departments did not inform (November 2009) the reasons for variation despite being requested (July 2009).

4.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)					
Sl. No.	Head of revenue	Budget estimates	Actuals	Variations excess(+)/shortfall(-)	Percentage of variation
A. Tax revenue					
1.	Sales tax/VAT	128.80	141.38	(+) 12.58	(+) 9.77
2.	Other taxes on income and expenditure (taxes on professions, trades, callings and employment)	15.72	15.46	(-) 0.26	(-) 1.65
3.	Other taxes and duties on commodities and services	0.23	0.13	(-) 0.10	(-) 43.48
4.	Stamp duty and registration fees	3.36	3.18	(-) 0.18	(-) 5.36
5.	Taxes on vehicles	4.91	4.03	(-) 0.88	(-) 17.92
6.	State excise	4.47	3.91	(-) 0.56	(-) 12.53
7.	Land revenue	1.20	0.78	(-) 0.42	(-) 35.00
8.	Taxes on goods and passengers	0.86	0.80	(-) 0.06	(-) 6.98
9.	Taxes and duties on electricity	0.34	0.39	(+) 0.05	(+) 14.71
Total tax revenue		159.89	170.06	(+) 10.17	(+) 6.36
B. Non-tax revenue					
1.	Miscellaneous general services	54.54	92.77	(+) 38.23	(+) 70.10
2.	Power	75.00	88.28	(+) 13.28	(+) 17.71
3.	Public works	9.47	7.96	(-) 1.51	(-) 15.95
4.	Forestry and wild life	2.31	1.02	(-) 1.29	(-) 55.84
5.	Police	0.60	3.36	(+) 2.76	(+) 460.00
6.	Interest receipts	35.00	39.99	(+) 4.99	(+) 14.26
7.	Water supply and sanitation	2.31	6.89	(+) 4.58	(+) 198.27
8.	Education, Sports, Art and Culture	1.37	0.91	(-) 0.46	(-) 33.58
9.	Other administrative services	1.22	0.59	(-) 0.63	(-) 51.64
10.	Major and medium irrigation	9.50	8.00	(-) 1.50	(-) 15.79
11.	Medical and public health	0.37	0.52	(+) 0.15	(+) 40.54
12.	Crop husbandry	0.15	0.07	(-) 0.08	(-) 53.33
13.	Housing	1.58	1.30	(-)0.28	(-) 17.72
14.	Co-operation	0.12	0.16	(+) 0.04	(+)33.33
15.	Others	1.68	1.64	(-) 0.04	(-) 2.38
Total Non-Tax Revenue		195.22	253.46	(+) 58.24	(+) 29.83
Grand total revenue		355.11	423.52	(+) 68.41	(+) 19.26

The concerned departments mentioned the following reasons for variations between the budget estimates and actuals for the year 2008-09.

Other taxes and duties on commodities and services: The shortfall in revenue collection was attributed to irregular show in cinema halls.

Taxes on vehicles & taxes on goods and passengers: The shortfall in revenue collection was attributed to less registration of heavy vehicles, vehicles taken out of the State and condemnation of old commercial vehicles.

State excise: The department stated that the main source of revenue is the excise duty of liquor paid by the Security Forces. Shortfall in revenue collection was attributed to fluctuation in the number of Security Forces deployed in the State and also the curtailment in the entitlement imposed by the Army Headquarters from time to time.

Land revenue: The shortfall was attributed to various land acquisition process taken up recently.

Taxes and duties on electricity: The excess over estimates was attributed to recovery of Manipur tax from the National Hydro Electric Power Corporation, Loktak.

Power: The excess over estimates was attributed to heavy collection of unofficial interchange (UI) charges.

Miscellaneous general services: The excess over estimates was attributed to sales proceeds of statistical publications.

Forestry and wild life: The shortfall was attributed to non completion of working plan for eight territorial forest divisions due to which extraction and sale of timber could not take place.

Education, Sports, Art and Culture: The shortfall was attributed to decrease in the enrolment of students in Government Colleges.

Co-operation: The excess over estimates was attributed to recovery of pending audit fees from the Co-operative Societies, Voluntary Organisations and NGOs.

The other departments did not inform (December 2009) the reasons for variation despite being requested (July 2009).

4.3 Analysis of collection

The break-up of the total collection at pre-assessment stage and after regular assessment of Sales tax, Professional tax and Amusement tax/Luxury tax for the year 2008-09 as furnished by the Commissioner of Taxes are mentioned below:

(Rupees in crore)

Head of revenue	Amount collected at pre - assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 2 to 6
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales tax/VAT	140.71	0.83	⁸	0.17	141.38	99.53
Profession tax	15.46	Nil	Nil	Nil	15.46	100
Amusement tax/Luxury tax	0.13	Nil	Nil	Nil	0.13	100

⁸ Rs. 54,000 only

The above table indicated that collection of revenue at pre-assessment stage was almost hundred *per cent* in respect of these heads during the year.

4.4 Cost of collection

The gross collection of sales tax, taxes on vehicles and percentage of expenditure to gross collection during the years 2006-07, 2007-08 and 2008-09 along with the relevant all India average percentage for 2007-08 were as mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average cost of collection for the year 2007-08
1.	Sales tax	2006-07	96.64	1.47	1.52	0.83
		2007-08	120.76	1.41	1.17	
		2008-09	141.38	1.62	1.15	
2.	Taxes on vehicles	2006-07	3.19	1.46	45.77	2.58
		2007-08	3.57	1.66	46.50	
		2008-09	4.03	1.96	48.64	

The above table indicated that the cost of collection under taxes on vehicles was much higher than the all India average while it was marginally higher in case of the sales tax. The reasons for the same though called for in July 2009 have not been received (December 2009). The Government may examine the reasons for the extremely high cost of collection and take appropriate action.

4.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs. 10.56 crore of which Rs. 5.74 crore was outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2009	Amount outstanding for more than 5 years as on 31 March 2009
1.	Sales tax	1.23	Nil
2.	Land revenue	9.33	5.74
Total		10.56	5.74

4.6 Arrears in assessment

The details of sales tax assessment cases pending at the beginning of the year 2008-09, cases which became due for assessment during the year, cases disposed during the year and number of cases pending at the end of the year 2008-09 as furnished by the Commissioner of Taxes in respect of sales tax/VAT are as mentioned below:

Name of tax	Opening balance as on 31 March 2008	New cases due for assessment during 2008-09	Total assessments due	Cases disposed of during 2008-09	Balance at the end of the year 2008-09	Percentage of disposals to the total assessments 5 to 4
1.	2.	3.	4.	5.	6.	7.
Sales tax/VAT	366	2,004	2,370	2,244	126	94.68

4.7 Refund

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2008-09 as furnished by the Department of Taxes are mentioned below:

Particulars of claims/refunds	(Rupees in lakh)	
	Sales tax/VAT	
	No. of cases	Amount
Claims outstanding at the beginning of the year 2008-09	3	2.23
Claims received during the year 2008-09	8	19.71
Refunds made during the year	3	16.73
Balance outstanding at the end of the year	8	5.21

The Government may consider taking effective steps to dispose the cases early.

4.8 Failure to enforce accountability and protect interest of the Government

Accountant General (Audit), Manipur, arranges to conduct periodical inspection of the Government departments concerned with tax revenue and non-tax revenue to test check the transactions and verify the maintenance of important records in accordance with the prescribed rules and procedures. These inspections are followed up with inspection reports (IR). When important irregularities detected during audit are not settled on the spot, IRs are issued to the head of offices inspected, with a copy to the next higher authority.

The number of IRs and audit observations relating to the revenue receipts issued up to 31 December 2008 and pending settlement by the departments as on 30 June 2009 along with the corresponding figures for the preceding three years is mentioned below:

	June 2007	June 2008	June 2009
Number of pending IRs	399	418	360
Number of outstanding audit observations	1,210	1,277	1,104
Amount of revenue involved (Rupees in crore)	523.79	596.12	678.97

Department-wise break-up of the pending IRs and audit observations as on 30 June 2009 is mentioned below:

Sl. no.	Name of department	Inspection report	Audit observations	Amount involved	Year to which observations relate	(Rupees in crore)
						No. of IRs to which even first replies have not been received
1.	PHED	27	65	6.33	1994-95 to 2008-09	20
2.	Electricity	96	288	616.08	1990-91 to 2008-09	52
3.	Land Revenue	61	167	11.02	1991-92 to 2008-09	47
4.	Registration	3	7	0.11	1991-92 to 2008-09	3
5.	Hospital	4	9	0.25	2002-03 to 2008-09	0
6.	Fishery	16	41	0.41	1991-92 to 2008-09	6
7.	Excise	15	37	4.65	1990-91 to 2008-09	6
8.	Taxation	41	209	13.07	1990-91 to 2008-09	37
9.	Lottery	4	25	19.37	1990-91 to 2008-09	2
10.	Motor vehicle	47	152	3.56	1990-91 to 2008-09	28
11.	Forest	46	104	4.12	1990-91 to 2008-09	28
Total		360	1,104	678.97		229

Thus out of 360 IRs pending for settlement, even first replies have not been received (June 2009) for 229 IRs. Pendency of these IRs was reported to the Government from time to time. However, no remedial action has been taken for speedy settlement of the IRs and audit observations outstanding as on 30 June 2009.

Since the outstanding amount represents unrealised revenue, **the Government need to take speedy and effective action on the issues raised in the IRs.**

4.9 Departmental audit committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, departmental audit committee meetings are constituted by the Government. These committees are chaired by the secretaries of the concerned administrative department and attended by the concerned officers of the state Government and officers of the Accountant General (Audit).

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly. During the year 2008-09, no audit committee meetings were held, despite being requested.

The Government may ensure holding of frequent meetings of these committees for ensuring effective action on the audit observations leading to their settlement.

4.10 Response of the departments to the draft audit paragraphs

Seven draft paragraphs (clubbed into five paragraphs) and two reviews proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2009 (Civil) were forwarded to the Secretaries/Commissioners of the respective departments during May, June, July, August and October 2009 through demi-official letters. The administrative Secretaries/Commissioners did not furnish replies (December 2009) in respect of five draft paragraphs and one review. The replies in respect of other two draft paragraphs and one review have been received and reflected in the report.

4.11 Recovery of revenue of accepted cases

During the years from 2002-03 to 2007-08, the departments/Government accepted audit observations involving Rs. 3.96 crore of which only Rs. 0.26 crore had been recovered till March 2009 as mentioned below.

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2002-03	0.72	0.51	0.02
2003-04	1.82	1.10	0.16
2004-05	0.63	0.25	0.00
2005-06	0.99	0.13	0.02
2006-07	1.87	1.01	0.02
2007-08	6.75	0.96	0.04
Total	12.78	3.96	0.26

The above table indicates the amount recovered was only 6.57 per cent of the accepted amount. **The Government needs to take effective steps to recover the outstanding amount in the interest of revenue.**

4.12 Results of audit

Test check of the records of tax receipts and other non-tax receipts conducted during the year 2008-09 revealed underassessment, non-levy, short levy and loss of revenue amounting to Rs. 111.68 crore in 101cases.

This chapter contains two reviews and five paragraphs relating to non/short levy (including penalty) of sales tax/value added tax; non-assessment/non-collection of professional tax; non-realisation of cost for deployment of armed guards from banks and others involving Rs. 6.77 crore. The department/Government accepted audit observations involving Rs. 3.81 crore, out of which Rs. 5.90 lakh has been recovered (December 2009). No reply has been received in respect of one performance review and three paragraphs (December 2009). The cases included are discussed in the succeeding paragraphs.

PERFORMANCE REVIEWS (REVENUE)

TAXATION DEPARTMENT

4.13 Transition from Sales Tax to Value Added Tax (VAT) System

Highlights

No time limit was fixed by the department either by way of circulars or notifications to bring all the eligible Pre-VAT dealers, liable to be registered within the ambit of the VAT Act. Only 22 per cent of the dealers registered under repealed Act could be brought within the purview of the VAT Act.

(Paragraph 4.13.7.1)

Important registers like “Register of receipt of returns”, “Register of defaulters”, “Register of casual dealers”, “Registers to watch the recovery of the arrears of tax, interest, penalty etc.” under the repealed Act and the VAT Act were not maintained.

(Paragraph 4.13.10)

Seven dealers did not pay tax of Rs. 1.58 crore for the period from 2005-06 to 2007-08. No action was taken by the department to recover the dues. The dealers were, also liable to pay interest of Rs. 1.22 crore.

(Paragraph 4.13.13)

Two dealers had defaulted in the payment of tax of Rs. 1.51 crore along with the relevant returns for the period from 2005-06 to 2007-08. The penalty of Rs. 45.64 lakh though leviable was not levied.

(Paragraph 4.13.16.1)

Value added tax of Rs. 24.08 lakh was required to be deducted at source from the bill of a contractor dealer, however, Rs. 7.87 lakh only were deducted from the bill of the contractor. This resulted in short deduction of VAT of Rs. 16.21 lakh.

(Paragraph 4.13.19)

4.13.1 Introduction

The Government of India decided to implement State Level Value Added Tax (VAT) in all the states on the basis of decision taken on 23 January 2002 by the empowered committee of the States’ Finance Ministers. The empowered committee brought out on 17 January 2005 a white paper on state level VAT. The following are the main features of VAT:

- it would eliminate cascading effect due to credit of tax paid on purchase for resale or for use in production;
- other taxes will be abolished and overall tax burden will be rationalised;

- overall tax will increase and there will be higher revenue growth; and
- there would be self assessment by the dealers and set off will be given for input and tax paid on the previous purchases.

The Government of Manipur repealed the Manipur Sales Tax Act, 1990 (the repealed Act) and enacted the Manipur Value Added Tax Act, 2004 (the VAT Act) from 1 July 2005. The Manipur Value Added Tax Rules, 2005 (the Rules) were introduced from 1 August 2005. The cases relating to prior to the enactment of the Act were to be finalised in accordance with provisions of the repealed Act.

Some of the differences between the existing VAT Act and the Repealed Act were as under:

- VAT is a multi point tax system while sales tax was single/double point tax system;
- VAT system relies more on the dealers to pay the tax willfully and submit the returns and deemed self assessment in VAT while supporting documents are required along with the returns in repealed Sales Tax Act;
- A fixed percentage of check was provided in the VAT Act while hundred *per cent* cases are required to be assessed in the repealed Sales Tax Act;
- The role of the executive in assessing the dealers is reduced under the VAT Act.

The salient features of the Manipur VAT Act are mentioned below:

The VAT Act comprises 12 chapters and two schedules. The chapters relating to registration of dealers, returns; assessment; recovery and refund of tax, accounts and records, inspection of accounts, appeal and revision, offences and penalties *etc.* are incorporated in the VAT Act. Each tax payer registered under the Act is assigned a unique Tax-payer Identification Number (TIN).

Schedule-I-consists of 170 items/goods, taxable at three different rates⁹ while all other goods not specified elsewhere are taxable @ 12.5 *per cent*.

Schedule- II consists of 57 items/goods which are exempt from payment of tax *i.e.* taxable at the rate of zero *per cent*.

4.13.2 Organisational set up

The Department of Taxes functions under the administrative control of the Finance Department, Government of Manipur. The department is headed by a Commissioner of Taxes who is assisted by one Deputy Commissioner, one Assistant Commissioner, Superintendents of Taxes and Accounts Officer.

⁹ 3 items/goods taxable at 1 *per cent* VAT rate, 162 items at 4 *per cent*, 4 items at 20 *per cent* and 1 residual item.

The Assistant Commissioner and the Superintendents of Taxes are the assessing authorities (AAs) assisted by Inspectors.

4.13.3 Audit objectives

The review was aimed to ascertain whether:

- the planning for implementation and the transition from the Sales Tax Act to VAT Act was effected timely and efficiently;
- the organisational structure was adequate and effective;
- the provisions of the VAT Act and the Rules made thereunder were adequate and enforced properly to safeguard the revenues of the State; and
- internal control mechanism existed in the Department and was adequate and effective to prevent leakage of the revenue.

4.13.4 Scope of audit

The review covering the period from 2004-05 to 2008-09 was carried out during the period from April to June 2009 and covered *cent per cent* units *i.e.* 10 (ten) Zones including three check posts/gates of Kangpokpi (Camp Sekmai), Moreh and Jiribam.

4.13.5 Acknowledgement

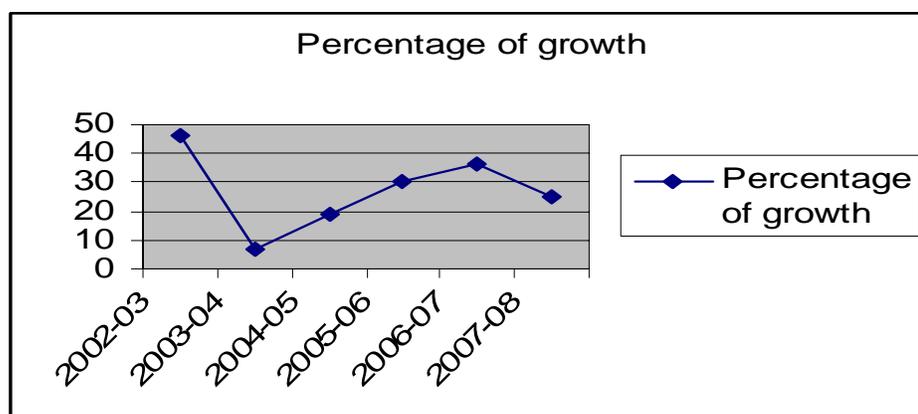
The Indian Audit and Accounts Department acknowledges the cooperation of the Department of Taxes and their officers and staff in providing necessary information and records for audit. An entry conference was held in June 2009 with the representatives of the Government and the officers of the department, in which the audit objectives and methodology were explained. The draft review report was forwarded to the department and the Government in June 2009. The exit conference was held in July 2009 with the representatives of the Government headed by the Deputy Secretary (Finance) and the departmental authorities headed by the Commissioner of Taxes in which the audit findings and recommendations were discussed. The replies of the department given during the exit conference and at other points of time have been appropriately reflected in the review report.

4.13.6 Pre-VAT and VAT collection

The comparative position of pre-VAT sales tax collection (2002-03 to 2004-05) and VAT period (2005-06 to 2007-08) tax collection and the growth rate in each of the years is furnished below:

Pre-VAT				VAT period			
Year	Actual collection	Annual growth of revenue	Percentage of growth	Year	Actual collection	Annual growth of revenue	Percentage of growth
2002-03	43.18	13.66 ¹⁰	46	2005-06	71.17	16.44	30
2003-04	46.12	2.94	7	2006-07	96.64	25.47	36
2004-05	54.73	8.61	19	2007-08	120.76	24.12	25
Total	144.03	25.21		Total	288.57	66.03	
Average growth rate	48.01	8.40	17	Average growth rate	96.19	22.01	23

The *percentage* of growth during 2002-03 was the highest. However, the average growth rate during 2002-03 to 2004-05 was 17 *per cent* while the average growth rate for 2005-06 to 2007-08 was 23 *per cent*. Thus after the implementation of VAT the average growth rate increased during the period 2005-2008.



The reasons for increase in the revenue growth for the period from 2005-06 to 2007-08 was attributed by the department to their effort and introduction of VAT in the state.

Audit findings

System deficiencies

4.13.7 Preparedness and transitional process

There was lack of adequate preparedness by the Government for switching over from the Sales Tax system to VAT system as discussed in the subsequent paragraphs. Out of the total of Rs. 40.48 lakh received (2002-02 to 2008-09) from the State Government for introduction of VAT/awareness programme, only Rs. 23.86 lakh¹¹ (58 *per cent*) were utilised.

¹⁰ Actual collection during 2001-02: Rs. 29.52 crore.

¹¹ Rs. 8.14 lakh parked under MH 8449 – other deposits in compliance with the directive of the Government, Rs. 3.13 lakh in DDO's account and remitting Rs. 5.35 lakh to Government account.

4.13.7.1 Registration of new dealers

As per section 24 of the VAT Act, a dealer, liable to pay tax shall not carry on business unless he has been registered. The Act further provides that if the gross turnover of sales of a dealer during a period of twelve consecutive months exceeds Rs. 50,000, he may apply for registration even if he is not liable to pay tax. As per the VAT Rule a certificate of registration shall be issued to a VAT dealer already registered under the repealed Act. However, **audit noticed that no time limit was fixed by the department either by way of any circular or by any notification for registering all pre-VAT dealers registered under the VAT Act.**

The position of the registered dealers during the last five years as furnished by the Department is shown below:

Year	Dealers under the repealed Act	No. of registered dealers under the VAT Act					
		Conversion	New	Total	Cancelled	Net registered	Total (Cumulative)
2004-05	6,219	—	—	—	—	—	—
2005-06	5,345	874	216	1,090	34	1,056	1,056
2006-07	4,989	356	179	535	4	531	1,587
2007-08	4,842	147	236	383	1	382	1,969
2008-09	—	—	402	402	1	401	2,370
	Total	1,377	1,033	2,410	40	2,370	

The table above indicated that out of 6,219 dealers registered under the repealed Act, only 1,377 dealers (*i.e.* 22 per cent) were registered under the VAT Act, thus leaving 78 per cent of the dealers outside the tax net.

After this was pointed out, the department stated (November 2009) that the registration of those dealers who did not register themselves under the VAT Act had been treated as cancelled vide Notification dated 17 December 2007 of the Commissioner of Taxes. However, the reply was silent on why action was not taken to register those dealers who were liable to be registered under the Act.

The Government may consider prescribing a time limit within which all Pre-VAT dealers liable to be registered under the VAT Act are brought within the ambit of the VAT Act.

4.13.7.2 Surveys for registration of dealers

Section 27(1) of the VAT Act provides that if a dealer does not get himself registered within two months from the date from which he is first liable to pay tax, the prescribed authority may, after giving the dealer an opportunity of being heard, impose by way of penalty a sum not less than five thousand rupees and not exceeding ten thousand rupees for each month of default. Section 65 of the Act requires that the Commissioner of Taxes shall from time to time cause a survey of unregistered dealers. However, **audit noticed that no norm/target regarding the number of surveys to be conducted was prescribed for each Inspector, Assistant Commissioner or by any other authority either in the VAT Rules or by the issue of any notification/instruction.**

During audit, it was noticed that neither the Zonal offices nor the office of the Commissioner of Taxes had carried out any survey/raid to detect the unregistered dealers. Test check of the records of Jiribam check post, however, disclosed that 10 casual dealers imported goods involving VAT of Rs. 0.88 lakh from outside the state after 1 July 2005. Neither did these casual dealers file any tax return nor did the assessing authority initiate any action to get the dealers registered. Penalty to the extent of Rs. 14.10 lakh was also leviable.

The Commissioner of Taxes replied (November 2009) that necessary action would be taken against the unregistered dealers and detailed information was also being called for from the officer in-charge of the Jiribam Check Post in respect of 10 casual dealers who imported goods from outside the State. The department stated (November 2009) that periodic surveys were being organised to detect unregistered dealers. However, the fact remains that not a single survey was conducted during the period under review. As discussed at paragraph 4.13.7.1, 78 per cent of the dealers registered under the repealed Act remained outside the tax net, **as such the Government may consider prescribing minimum norms/target for conducting surveys to catch the unregistered dealers.**

4.13.7.3 Registration of dealers under threshold limit

The VAT Act provides that a dealer whose gross turnover of sales during a period of twelve consecutive months exceeds Rs. 50,000 may apply for registration under the Act.

The department had not put in place any system for periodical scrutiny of the books of the accounts of those dealers who were under the threshold limit, to register the dealers within the purview of the VAT Act. As such, the number of dealers who should have been registered could not be ascertained.

The Government may consider putting in place a system for periodical scrutiny of the books of the accounts of the dealers under the threshold limit to ensure their registration under the Act.

4.13.7.4 Dubious/risky and bogus dealers

The department had not prepared a separate database for dubious/risky dealers. Since such data are very useful and are an important control measure to prevent bogus transactions and utilisation of fraud and invalid forms, the Government may direct the department to maintain the data of dubious/risky and bogus dealers.

The Government may consider directing the department to prepare a database for effective administration of the VAT Act and the rules made there under and for maintaining data of dubious/risky and bogus dealers.

4.13.7.5 Position of unused TINS

Audit noticed that the department had not installed any system for periodic review of the registration certificates to detect TINs that had

remained unused for long periods. The VAT Act also does not provide for a time limit for cancellation of the unused TINs.

The position of the unused TINs was not available with the department. The department, however, stated (November 2009) that the dealers who failed to submit returns for considerable periods had been served notices for submission of returns and in case of their failure necessary action would be taken. Audit, however, did not find a single case where any action of cancellation or calling for returns was taken on unused TINs.

4.13.7.6 Computerisation of the Taxation Department on check gates

The Government of India had entered into an agreement with M/s Tata Consultancy Services (TCS) to computerise the VAT system implemented in the North East States with effect from April 2005. The objectives were to facilitate computerisation of registration of the dealers under VAT and CST, computerisation of check gates and related monitoring of inter-State movement of goods, processing of returns, challans *etc.* The VAT and CST Management System (VCMS) is a web based system and the project is fully funded by the Government of India.

Audit observed that several modules had still not been made operational and VCMS failed to generate all important returns and reports essential for day to day work. It was also seen that the data entries were not being made properly into the system, defeating the purpose of the computerisation. Further, the records maintained at the check gates at Jiribam and Moreh were not computerised. Thus, cross verification of return with the check gates records could not be done effectively by the assessing officers.

For effective implementation of VAT, the Government may adopt computerisation of all records.

4.13.8 Shortage of staff

Manpower management is a key factor for smooth and efficient working of a department and shortage of personnel is a serious problem that impacts output, besides delaying the disposal of urgent cases.

From the information furnished by the Commissioner of Taxes, Manipur, it was seen that there was manpower shortage during the last three years in various cadres in the key areas like assessment, survey, registration, raising of demands, collection of tax *etc.* At the end of March 2009, out of 161 sanctioned posts, 40 posts in various cadres, which is more than 25 *per cent* of sanctioned posts, were lying vacant.

For better tax administration under VAT, the department was required to computerise its operation in a big way and accordingly create new posts of system analyst, programmers, assistant programmers and data entry operators. However, as on 31 March 2009, no such posts were created.

It is therefore, recommended that the department may reassess the requirement of strength in post-computerisation scenario, for better tax administration.

The department agreed (November 2009) that there were shortages and intimated that efforts were being made to fill up the vacant posts.

4.13.9 Creation of operation manual and training of staff

In the course of scrutiny of the MVAT Act and Rules made thereunder it was noticed that no provision has been kept for creation of operation manual for officers and other subordinate staff working in the department. **No operation manual has been prepared by the taxation department for effective implementation of VAT.**

The department intimated (November 2009) that during the year 2007-08 and 2008-09, 41 out of 119 staff members were imparted training through various computer courses. Thus, 66 *per cent* of the staff was yet to be trained to meet the challenges of the VAT system.

The Government may consider directing the department to prepare a manual and reorganise itself based on proper manpower planning and adequate training.

4.13.10 Non-maintenance of records

Important registers like register of receipt of returns, register of defaulters, register of casual dealers, registers to watch the recovery of the arrears of tax, interest, penalty *etc.* under the repealed Act and the VAT Act separately were not maintained.

Arrears of Rs. 59.45 lakh were pending under the repealed Act as on 31 March 2005, while arrears amounting to Rs. 1.58 crore were pending on account of sales tax/VAT as on 31 March 2009. In absence of the records, the progress made in recovery of the outstanding amounts of tax each under the repealed Act or under VAT Act, could not be ascertained by audit. The chances of delay in collection of these arrears cannot be ruled out.

4.13.11 Deficiencies in VAT Act

The review revealed a number of deficiencies in the provisions of the VAT Act and the Rules, which persisted during the period covered under the review. Some of the important deficiencies are mentioned below:

4.13.11.1 Deficiencies in return format and monitoring their receipts

As per Rule 24 of the Rules, registered dealers are required to file monthly/quarterly tax return in Form-10 to the appropriate tax authority. **Audit noticed that the format of the return "Form-10" did not provide for important information relating to value of opening and closing stock of goods held by the dealers, discount allowed and tax collected, details of treasury**

challan and details of the selling dealers in the returns. No mechanism was put in place by the department to monitor filing of the returns by each registered dealer.

The information regarding the runaway/missing dealers, assessment pending finalisation, tax due *etc.* in respect of these dealers were not available with the department. Test check of the assessment records maintained in 7 Zones¹², revealed that 95 dealers registered under the Repealed Act/VAT Act did not file returns for various quarters up to March 2009. 32 dealers had not submitted any return from the dates of their registration. Of these, 42 dealers were issued various declaration Forms like ST '35', '27', 'C' and 'F'. The tax authorities, however, did not take any action to get the dealers traced out or cancel the "Forms" issued to these dealers. The misutilisation of these forms cannot be ruled out. Even the department had not issued notices to the dealers to file the outstanding returns except in respect of 21 dealers under Zone-VII and VIII.

4.13.11.2 Tax audit

Section 33 of the Act provides *inter alia* that the Commissioner or any other tax officer as directed by him shall undertake tax audit of the records, stock in trade and the related documents of the dealers, who are selected by the Commissioner in the manner as may be prescribed for the purpose. For the purpose of tax audit, the Commissioner or any other Tax Officer directed by him shall examine the correctness of return or returns filed and admissibility of various claims including input tax credit.

Audit noticed that the department had not selected any case for test audit. No procedure/system for selection of dealers for tax audit was framed by the department. Moreover, time frame within which the tax audit should be taken up and completed was also not prescribed in the VAT Act.

4.13.11.3 Lack of monitoring at the higher level

Neither the Government nor the department had installed any Management Information System for submission of the returns/report to the respective higher authority for monitoring their receipt, disposal and correctness.

After this was pointed out, the department stated (November 2009) that a format for this purpose had been devised. However, the time period within which it shall be made applicable has not been intimated (December 2009).

The Government may consider:

- **revising the format of the returns for providing necessary information like opening and closing stock of goods held by the dealers, discount allowed and tax collected details of treasury challan, details of the selling dealers *etc.*;**

¹² Headquarters III, IV, V, VII, VIII, IX including Moreh check post.

- **putting in place a mechanism to enable the department to monitor filing of returns by each registered dealer.**

4.13.12 Internal audit

Audit noticed that though the white paper on VAT envisaged the creation of an independent audit wing for checking a percentage of dealers' self-assessments, yet no provision for such an audit wing has been incorporated in the VAT Act.

No internal audit was conducted during the years from 2005-06 to 2007-08. The department had no internal audit wing of its own. Internal audit aids, advises and guides the administration for better results. Absence of the internal audit wing indicates that the department was unaware of the malfunctioning and other weakness pointed out by audit. The Director of Local Fund Audit, Manipur, conducted the audit of the accounts of the department for the period from February 2004 to May 2006. But the audit was not concluded and no inspection report was issued to the department.

The department stated (November 2009) that a proposal for creation of an independent Internal Audit Wing under the supervision of a Senior Audit Officer would be submitted to the Government and in the mean time the Director of Local Fund Audit, Manipur would be requested to complete the audit of the accounts of the department for the period of February 2004 to May 2006 and submit the inspection report.

Government may consider putting in place a separate internal audit wing for the department.

Compliance deficiencies

4.13.13 Non-levy of interest

Section 29 (1) (a) read with Section 50 (4) of the MVAT Act, provides that if a dealer fails to pay the amount of tax due as per the return/self assessment/provisional assessment, such dealers shall be liable to pay interest at the rate of 2 *per cent* per month from the date the tax payable had become due to the date of its payment.

Test check of the assessment records maintained by two Zones¹³ disclosed that seven dealers failed to pay tax due amounting to Rs. 1.58 crore for the period from 2005-06 to 2007-08. No action was taken by the department to recover the dues. The dealers were also liable to pay interest of Rs. 1.22 crore.

After this was pointed out, the Commissioner of Taxes stated (November 2009) that necessary steps for realisation of both the tax due and interest would be initiated.

¹³ Headquarters and Zone III.

4.13.14 Non-determination of opening stock under the VAT Act

Under Section 88 of the Act, the Commissioner may, by notification in the Official Gazette, require that any class of registered dealers as may be specified in the notification declare details regarding the stock of goods held by them on the day immediately preceding the date on which the Act comes into force.

Test check of the records maintained in zone I revealed that none of the dealers except one dealer¹⁴ declared stock position as on above cited date. Further, there was no database for uploading the stock position of the dealers for future reference.

The department stated (November 2009) that the audit observation was noted for future guidance.

4.13.15 Non-operation of TINXSYS

The empowered committee of State Finance Ministers had authorised a website **tinxsys.com** to serve as a repository of inter-state trade transactions.

No data relating to dealers was uploaded on the site during the period from 2005-06 to 2007-08. Non-uploading of information in the site defeated the objective of creation of the website.

The department stated (November 2009) that lack of preparedness for the transitional process from Sales Tax to VAT system, non-operation of TINXSYS had been noted and corrective measures were being initiated.

4.13.16 Non-levy of penalty

4.13.16.1 Under Section 29 (3) of the Act, if a registered dealer fails to pay the amount of tax due and the interest along with the return, penalty at the rate of 2 *per cent* per month on the tax due and interest is also leviable from the date it became due to the date of its payment or to the date of order of assessment, whichever is earlier.

Test check of the assessment records maintained by Headquarters zone revealed that two dealers were defaulters in payment of tax due amounting to Rs. 151.12 lakh along with the relevant returns for the period from 2005-06 to 2007-08. The penalty of Rs. 45.64 lakh though leviable was not levied.

After this was pointed out, the Commissioner of Taxes stated (November 2009) that necessary steps for realisation of both the tax and penalty would be initiated.

4.13.16.2 Section 58 of the VAT Act provides that if the gross turnover of a dealer, in any year exceeds Rs. 20 lakh or any other amount as fixed by the Commissioner, such dealer's account shall be audited by the Chartered

¹⁴ By trade name M/s Jaipur Medical Hall (TIN-1411017522), a dealer in medicine, drugs *etc.*

Accountant within six months from the end of the relevant year and the dealer shall furnish a copy of the certificate of the audit of accounts in Form '25' to the tax authority by the end of the month after expiry of the six months failing which the Commissioner shall impose on the dealer a sum, by way of penalty, equal to 0.1 *per cent* of the turnover.

Test check of the records maintained in eight zones¹⁵ revealed that the turnover of each of the 28 registered dealers exceeded Rs. 20 lakh during 2005-06 to 2007-08 but none of these dealers submitted the certificate of the audit of accounts. Their assessments involving taxable turnover of Rs. 166.58 crore were finalised (between July 2006 and February 2009) without imposing the penalty of Rs. 16.66 lakh.

The department stated (November 2009) that the penalty at the rate 0.1 *per cent* was being realised from the dealers who failed to submit certificates of Audit of Accounts.

4.13.16.3 Section 66 of the VAT Act provides for establishment of the check gates to prevent leakage/avoidance of revenue. As per section 66 (2) (a), the driver or person in charge of vehicle or carrier of goods in movement shall carry with him the records of the goods and declaration Form '27' indicating the details relating to movement of goods by the consignor of the goods carried; failing which a penalty equal to the amount of 5 times of the tax shall be leviable on such goods or 20 *per cent* of the value of goods whichever is higher.

Test check of the records like "the daily goods movement register" (ST-48) and "detailed statement of trucks carrying goods" maintained by the Jiribam check gate revealed that during the period from November 2005 to February 2006 ten registered dealers/26 truck owners imported/transported various goods worth Rs. 1.65 crore from outside the State without valid declaration Form '27' involving VAT of Rs. 11.51 lakh¹⁶. The dealers were liable to pay the penalty of Rs. 57.57 lakh¹⁶ which was not imposed by the AAs.

Audit also noticed that the check gate at Kangpokpi (Sekmai) was abolished in March 2006. Similar movement of goods without valid declaration Forms by the dealers along the NH 39 could not be ruled out.

The department stated (November 2009) that a check post at Mao and a temporary check post at Senapati were proposed to be constructed. The check posts at Jiribam and Moreh would also be strengthened, fully computerised and entry and exit of goods would be monitored. However, the reply was silent about the non-levy of penalty.

¹⁵ Headquarters, I, II, III, IV, V, VI and VIII.

¹⁶ Rs. 11,51,360. The penalty @ 5 times of tax due is Rs. 57,56,800.

4.13.17 Suppression of sales turnover

Test check of the assessment records maintained in two zones disclosed that two dealers declared their taxable sales turnover as Rs. 58.37 lakh instead of the actual taxable turnover Rs. 242.45 lakh for the period ending December 2006 to December 2008 thereby concealing the sales turnover of Rs. 184.08 lakh with tax effect of Rs. 8.02 lakh. The AAs, incorrectly accepted the self assessment (April 2007 to January 2009) of dealers. Penalty to the extent of Rs. 16.04 lakh was also leviable.

The department stated (November 2009) that one dealer¹⁷ had furnished documents relating to sales turnover for the period December 2006 to September 2007. However, no such record was produced to audit. In respect of another dealer¹⁸ the department stated that a show cause notice has been served for levy of additional tax along with penalty.

4.13.18 Suppression of purchase turnover

Test check of the assessment records maintained in eight zones revealed that the AAs while finalising the assessment (December 2005 to November 2008) of thirteen dealers for the period ending September 2005 to September 2008 accounted for the purchase turnover and value of stock transfer of goods amounting to Rs. 31.65 crore as against the actual value of Rs. 38.93 crore as disclosed by the utilisation statements of statutory Forms 'F', 'C', '27' and ST-35 issued to the selling dealers and the records maintained at the check gate of Kangpokpi (Camp: Sekmai) thereby concealing the purchase turnover etc of Rs. 7.28 crore. Failure on the part of the AAs to detect the suppression of the purchase turnover resulted in evasion of tax of Rs. 63.51 lakh and non-levy of penalty of Rs. 1.27 crore.

Further, another dealer¹⁹ (not yet assessed) depicted the value of goods imported as Rs. 59.23 lakh instead of the actual value of Rs. 75.79 lakh thereby suppressing the purchase turnover amounting to Rs. 16.56 lakh with tax effect of Rs. 0.66 lakh. The penalty leviable on the additional tax of Rs. 0.66 lakh worked out to Rs. 1.33 lakh.

The department stated (November 2009) that the three dealers had furnished the documents relating to purchase turnover for the relevant period and that notices had been served to the 10 dealers²⁰ to furnish the necessary documents. The reply of the Department regarding receipt of the relevant documents relating to purchase turnover could not, however, be substantiated as the department could not produce the related documents (December 2009).

¹⁷ By trade name M/s Steel Trading Corporation (14510015182).

¹⁸ By trade name M/s Baani Sales & Services (14110020124).

¹⁹ By trade name M/s Ericsson India Private Limited (1401115376) under jurisdiction of Headquarters Zone, a dealer in telecommunication parts *etc.*

²⁰ By trade names M/s Manipur Steel Mart (14310010175), M/s Ganeshlal Bagri & Co (14210056123), M/s R. K. Steel (1471001193), M/s Kulabidhu Singh (14710021102), M/s Zingsho Enterprise (14510012152), M/s D.K. Enterprises (14410114175), M/s Belgium Glass Corner (14610057144), M/s New Calcutta Hardware Store (14110083172), M/s Golden Enterprises (14610056134) & M/s Kim-Joe Gas Service (14910010143).

4.13.19 Non-deduction of tax at source

As per the Government of Manipur, Finance Department OM dated 20 March 2006 and 13 July 2007, VAT at the rate of 5.6% of the amount of the bills of the contractors dealers shall be deducted at source.

Test check of the records of PWD, Manipur revealed that VAT of Rs. 24.08 lakh (5.6% of Rs. 4.30 crore) was required to be deducted at the source from the bill of a contractor dealer²¹ as on March 2009. The division deducted VAT of Rs. 7.87 lakh only from the bill. This resulted in short deduction of VAT of Rs. 16.21 lakh. The dealer had not filed return for the quarter ending March 2009. The department had at no time asked the dealer to submit the returns. Thus, lack of action on the part of department resulted in non-realisation of Rs. 16.21 lakh.

After this was pointed out, the department stated (November 2009) that the Chief Engineer, PWD, Manipur was requested to furnish the details of tax deducted from the contractor. Further reply has not been received (October 2009).

4.13.20 Grant of incorrect Input tax credit

Section 17 of the VAT Act provides that no input tax credit claim shall be allowed to a registered dealer where tax invoice is either not available or has not been issued by the selling dealer.

Test check of the assessment records maintained by three zones revealed that the AA while finalising the assessments (April 2006 and January 2009) of three dealers²² for the period from September 2005 to December 2008 allowed input tax credit of Rs. 22.01 lakh despite the fact that these claims were not supported by the tax invoices of the selling dealers. This resulted in short levy of VAT of Rs. 22.01 lakh.

4.13.21 Conclusion

The review revealed that there was ineffective implementation of the provisions of the VAT Act and the Rules. Instead of widening the tax base it was noticed that 78 per cent of the dealers registered under the repealed Act could not be brought under the purview of the VAT Act. Though a large number of dealers were defaulters in payment of tax due thereby attracting interest and penal provisions of the Act, the relevant provisions were not implemented promptly leading to non-levy of tax and penalty. No internal audit was conducted during the years 2005-2008. The department had no separate internal audit wing and the Director of Local Fund Audit, Manipur

²¹ By trade name M/s Simplex Project Ltd., Kolkata (14010280175 – Hqtr), a dealer in works contract.

²² By trade names M/s Parash Agency (14110003148 - I), a dealer in milk powder, edible oil etc: Rs. 5.03 lakh; M/s J. K. Steel (14310616158 - III), a dealer in G.C. Sheet etc: Rs. 11.06 lakh; M/s Bhagchand Kailashchand (14210037127 - II), a dealer in Safety matches, mosquito coil, cosmetic, soap etc: Rs. 5.92 lakh.

who had conducted the audit of the accounts of the department for the period from February 2004 to May 2006 had not submitted any report. The department was, therefore, unaware of the malfunctioning and other weaknesses.

Failure of the Department to make the TINXSYS operational, closing of the check gate along the National Highway 39 and making the dealers submit to the tax authorities, the details of the goods imported with value thereof, which was not insisted upon, made the assessment finalised under Section 34(3) tainted with concealment of purchase turnover and evasion of tax.

4.13.22 Summary of recommendations

The Government may:

- prescribe a time limit within which all Pre-VAT dealers liable to be registered under the VAT Act will be brought within the ambit of the VAT Act;
- prescribe norms/target for each Inspector, Assistant Commissioner or for any other authority regarding the number of surveys to be conducted during a year;
- direct the department to prepare a manual for effective administration of the VAT Act and the rules made thereunder and for maintaining data of dubious/risky and bogus dealers;
- put in place a system for periodical scrutiny of the books of the accounts of the dealers under the threshold limit to ensure their registration under the Act;
- revise the format of the returns for providing necessary information like opening and closing stock of goods held by the dealers, discount allowed and tax collected, details of treasury challan and details of the selling dealers *etc*;
- put in place a mechanism to enable the department to monitor filing of returns by each registered dealer; and
- strengthen its internal controls and putting in place a separate internal audit wing for the department.

TRANSPORT DEPARTMENT

4.14 Information Technology Audit of the Department of Transport

Highlights

In five DTOs selected for the implementation of the computerisation programme, it is yet to be implemented despite availability of computer equipment and trained manpower since 2006-07.

(Paragraph 4.14.6.1)

Though computerisation programme was introduced in DTO, Imphal West in 2003, the software modules available are still only partially utilised.

(Paragraph 4.14.6.2)

Insurance details were not entered in respect of most of the vehicles.

(Paragraph 4.14.7.8)

Tax amount was not entered in respect of 62 vehicles registered from 2003 onwards.

(Paragraph 4.14.7.10)

Fine was not imposed in respect of 4,214 vehicles registered after more than 30 days of the date of purchase after 2003.

(Paragraph 4.14.7.11)

Hand Held Terminals had not been purchased by MANITRON²³ as per the terms of the contract even after seven months of the implementation of the smart card.

(Paragraph 4.14.8.3)

There was no documentation of modifications made to the application software.

(Paragraph 4.14.11.1)

4.14.1 Introduction

The Department of Transport, Government of Manipur (Department) is entrusted with the responsibility of implementing the various provisions relating to assessment, levy and collection of taxes, fees, permits and fines on motor vehicles under the provisions of the Motor Vehicle Act (1988) (the Act) and Central Motor Vehicles Rules (1989) (the Rules); Manipur Motor vehicles Taxation Act 1998; Manipur Passenger and Goods Taxation Rules 1979 and other such notifications issued from time to time. A major function performed by the department is the registration of vehicles and issue of driving licence.

²³ Manipur Electronics Development Corporation Ltd., a State PSU.

The Department of Road Transport and Highways (DRTH), Government of India instructed (January 2001) all the states to adopt a standardised data format and software for front end and back end applications for the purpose of issuing driving licence and registration of motor vehicles and maintaining their database so that a National Register of motor vehicle and driving licence could be prepared. The DRTH directive envisages faster and better services, transparency, monitoring of state revenue and modernisation of RTOs through computerisation and interlinking thereby maintaining a State Register of motor vehicle and driving licences also.

DTO, Imphal West was selected as a pilot site of Manipur Transport Department for computerisation of vehicle registration activity in February 2002. Accordingly, the standardised software *VAHAN* and *SARATHI* developed by National Informatics Center (NIC), New Delhi was taken up for implementation from December 2003 onwards at DTO, Imphal West District. Computer hardware were installed in DTO, Imphal East District in 2006 and also in four other DTOs in 2007²⁴.

The system also provided for a Smart Card with a micro processor chip of minimum 4K bytes to be introduced using standardised and uniform format for certificate of registration of motor vehicles and driving licences, wherein data would be tamper proof and leakage of revenue would be prevented and the cards are readable throughout the country by using Hand Held Terminals (HHT). The Smart Card became operational from November 2008.

The *VAHAN* package was developed on Windows operating system using Visual Basic 6.0 for the front end application program and SQL server 7.0 for the back end data base. The software automates management of information relating to the vehicle registration, identity of its owner and technical details of the vehicles, tax, fitness, permit and their corresponding validity, authorisation including interstate aspects and insurance details.

An IT review on computerisation of the Transport Department was conducted which revealed a number of system and compliance deficiencies. These are mentioned in the succeeding paragraphs.

4.14.2 Organisational structure

The Director of Transport is the head of the Department under the administrative control of the Commissioner of Transport. He is assisted by two Deputy Directors (Administration and Planning). The activities for computerisation of the Department is executed by the Chief Information Technology Officer (CITO) under the Deputy Director (Planning) in consultation with the NIC, Manipur. The Deputy Director (Administration) controls the six district transport officers of the State.

CITO coordinates and looks after the work of computerisation in the various District Transport Offices in consultation with the NIC, Manipur.

²⁴ Thoubal, Bishnupur, Churachandpur and Kangpokpi.

4.14.3 Audit objectives

The objectives of the IT Audit were to ascertain whether:

- the project was commissioned within a reasonable time frame,
- the data captured were accurate and comprehensive,
- adequate controls are in place,
- the Department has in-house technical expertise to run the system and
- the Department has been able to effectively apply the software for management of registration of vehicles, realisation of fees/road tax and issue of driving licence.

4.14.4 Scope of audit

The scope of the review of IT Audit included the audit of the system implementation and examination of controls in selected operational applications viz. registration of vehicles and its allied activities, collection of taxes and fines and issue of driving licence for the period from 2003 to May 2009. DTO, Imphal West district where the software *i.e.* VAHAN and SARATHI has been implemented was selected for detailed audit examination.

4.14.5 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing the necessary information and records for audit. An entry conference was held with the Department in February 2009 to explain the audit objectives and scope of this review. The draft review was forwarded to the Government and the Department on 1 October 2009. An exit conference was held on 3 October 2009 in which the results of audit and the recommendations were discussed with the Commissioner of Transport. The replies received during the exit conference and at other points of time have been appropriately included in the respective paragraphs.

Audit findings

4.14.6 System implementation

4.14.6.1 Delay in implementation of computerisation and non-implementation in five DTOs

Audit scrutiny revealed that no IT Strategic Plan/policy and planning were in place. Only DTO Imphal West has implemented the software on a partial basis since December 2003. The other five DTOs are still functioning manually despite the availability of trained manpower and necessary equipments up to the date of audit (July 2009), resulting in non-utilisation of the resources as shown in the following table:

Details of installed hardware and present status

Name of DTO	Type of hardware	Number	Date of installation	Present status
Imphal West	Desktop	10, including server	December 2003	DL and RCs of vehicles are being issued.
Imphal East	Desktop	4, including server	September 2006	Installed facilities not being utilised
Thoubal	Desktop	4, including server	July 2007	
Churachandpur	Desktop	4, including server	August 2007	
Bishnupur	Desktop	3, including server	September 2007	
Kangpokpi	Desktop	3, including server	October 2007	

Further, six generator sets (2.4 KVA each) were provided to the six DTOs in 2007.

Details of training in VAHAN and SARATHI

DTO	Number of persons	Held in
Imphal West	21	Nov-Dec 2003
Imphal East	3	2005
Churachandpur	2	
Thoubal	2	2006
Bishnupur	2	
Kangpokpi	2	

This is indicative of poor planning for implementation of the IT programmes and the Department should formulate an IT Plan which will provide necessary direction for its timely implementation at the other targeted DTOs.

The department admitted that no strategic plan/policy was in place and stated that though computerisation was started in all five DTOs in 2006, the computerised functioning was stopped for sometime due to local problems like space constraint and lack of regular power supply. The problems are being addressed through shifting of DTO, Imphal East to bigger premises and generator sets have been provided to each DTO. However, DTO Bishnupur is still functioning manually. Interlinking of servers of all the DTO is not yet started.

Audit pointed out that even after providing the generator sets to each DTO in 2007, the other five DTOs were still functioning manually in most of their registration activities. As a result, investment to the tune of Rs. 10.51 lakh²⁵ in terms of hardware and software is lying unutilised.

4.14.6.2 Partial utilisation of VAHAN in DTO Imphal West

VAHAN software has registration/renewal of vehicles, taxation, fitness, and enforcement modules available. These are for both private and commercial vehicles, through the use of Smart Cards, implying that the data be stored by the States in a server at a central location, thus creating a State Register of Vehicles.

In DTO Imphal West, registration of light motor vehicles, three wheelers and two wheelers only are computerised. Registration of heavy transport vehicles,

²⁵ Rs. 7.07 lakh for Desktop and Rs. 3.44 lakh for Generator set.

taxation relating to commercial and heavy transport vehicles and information relating to permit and its validity including interstate permits, enforcement *etc.* have not yet been started through VAHAN, even after five years of its implementation. The present arrangement is for the computerised database to be maintained in separate servers for each DTO as infrastructure has not yet been developed for interlinking the databases.

Consequently, each DTO remains unaware of the database being maintained in the other DTOs and as a result the department failed to achieve the objective of maintaining a State Register of Motor Vehicles.

The Department admitted that the taxation module available under VAHAN could not be made fully operational as taxation is a State subject and developing common software is difficult. The Department also admitted that Smart Card for transport vehicles has not been issued as the quarterly/half yearly payment of taxes would require frequent updation of the Smart Card. The matter is under consideration with the NIC headquarters, New Delhi.

4.14.7 Analysis of database

4.14.7.1 VAHAN

4.14.7.2 System Design Government Rules/Regulations not incorporated in the software

Audit noticed that the software did not provide adequate validation checks to ensure conformity with the applicable rules and regulations of the Government regarding registration of the vehicles as indicated below:

4.14.7.3 Repeated entry of the records

Chassis numbers and engine numbers are unique identification marks of a vehicle which are essential for its registration under the provisions of the Act and Rules. Moreover, registration number is the identification of a vehicle. Rule 48 provides that on receipt of an application under Rule 47 and after verification of the documents furnished therewith, the registering authority shall subject to the provisions of Section 44 of the Act, issue to the owner of the motor vehicle a certificate of registration in form 23.

Analysis of the database revealed that out of 35,250 registered vehicles there were 17 sets of repeated chassis numbers involving 48 records. The level of repetition ranged from two to five. Further analysis of the database *VT_OWNER*²⁶ (35,250 records) revealed that four records involving four owners registered under different registration numbers had the same chassis and engine numbers in two records each as shown in *Appendix 4.1*.

²⁶ *VT_OWNER*- Table containing details of the vehicle owners.

Similarly, there were 69 sets of repeated engine numbers involving 156 records. The level of repetition ranged from two to five. Out of the 156 records, 69 vehicles had repeated (two to three times) engine numbers but different owner and different registration numbers. Further 63 records had no engine numbers.

Cross verification of the data available in the system with the “combined” register further revealed that 28 vehicles under different registration numbers and 27 different owners were registered under 14 pairs of engine numbers and under different chassis numbers. However, a pair of vehicles with the same engine number differed in their chassis numbers either in alpha ‘I’ with numeric ‘1’ or alpha ‘O’ with numeric ‘0’ as shown in *Appendix 4.2*. This indicated lack of validation control in the system to ensure uniqueness of engine/chassis/ registration numbers. Such a system flaw could lead to a risk of stolen vehicles being registered under engine/chassis/registration number other than their own. The department needs to investigate the matter in depth to rule out such irregularities.

The Department stated in the exit conference that all the discrepancies noticed by audit will be scrutinised with original records and appropriate remedial action will be taken under intimation to audit.

4.14.7.4 Vehicles with lapsed registration

As per the Act and Rules, a certificate of registration in respect of a motor vehicle, other than a transport vehicle, is valid only for a period of 15 years from the date of issue of such certificate. No vehicle can be used in any public place until its certificate of registration is renewed. An application for renewal of a certificate of registration shall be made to the registering authority, in Form 25 not more than sixty days before the date of its expiry, accompanied by the appropriate fee. If the owner fails to make an application within the prescribed period, the registering authority may, having regard to the circumstances of the case require the owner to pay, in lieu of any action that may be taken against him, such amount not exceeding rupees one hundred.

Analysis of the database revealed that as on 31 December 2008, registration certificates in respect of 750 non-transport vehicles had expired. Neither had the registration certificate of the vehicles been renewed nor had they surrendered their registration certificate. As such, renewal fee for registration of Rs. 79,160²⁷ and a maximum fine of Rs. 75,000²⁸ for non-renewal of registration of the vehicle is realisable. The number of vehicles and the amount of registration fee and fine, however, stand qualified to the extent of the correctness of the data.

The Department stated that all the discrepancies noticed by audit will be scrutinised with the original records and appropriate remedial action will be taken under intimation to audit.

²⁷ 270 Scooter/moped (@ Rs. 60), 236 motor cycle (@ Rs. 60), 96 LMV (car) (@ Rs. 200), 79 LMV (van) (@ Rs. 200) and 69 LMV (jeep/gypsy) (@ Rs. 200).

²⁸ 750 vehicles @ Rs. 100.

4.14.7.5 Tax availability more than 15 years

As per the Act, a certificate of registration in respect of a motor vehicle, other than a transport vehicle, is valid only for a period of 15 years from the date of issue of such certificate.

Analysis of the database revealed that there was inadequate validation control in the system to check validity of the registration period in the database, as the validity of the certificate of registration was more than 15 years in respect of 13 vehicles registered since July 2002.

The Department while admitting the audit findings stated that the data might have been entered as backlog entry and it will be verified from the records as to why it was so entered.

4.14.7.6 Partial capture of database

As per Rule 47, Form 20 has been prescribed for registration of the vehicles which contains information of the vehicles in 34 fields. The 'VAHAN' package provides for capture of all the information.

Analysis of the database *VT_OWNER* (35,250 records), however, revealed that the data capture was partial even in the mandatory fields like father's name, engine number, address, maker model *etc.* (*Appendix 4.3*).

The Department admitted that full information was not captured properly as the data was entered through backend to capture the backlog portion.

4.14.7.7 Incorrect data relating to seating capacity

The road tax is charged in case of transport vehicles depending on their seating capacity, wrong data of seating capacity would have adverse impact on the tax assessment. Analysis indicated that the seating capacity in some cases has been incorrectly entered, as shown in *Appendix 4.4*. These show the lack of validation control.

Since the function relating to permit is still being managed manually by the department, there is no immediate impact. However, these data errors need to be rectified in order to ensure system readiness for switching over to computerised application.

The Department admitted that it might be due to clerical error. NIC also stated that the issue of seating capacity to be provided in the software was under examination.

4.14.7.8 Registration of vehicles without insurance cover note

According to Section 146 of the Act, no person shall use, except as passenger, or cause or allow any other person to use, a motor vehicle in a public place, unless there is in force in relation to the use of the vehicle by that person or

that other person, as the case may be, a policy of insurance complying with the requirements of the Act.

Audit observed that there was no validation check in the system to ensure that at the time of registration of a vehicle, a valid insurance certificate/cover note was in place. Analysis of the database (*VT_OWNER* joined with *VT_VEHINS*²⁹) revealed that out of 36,795 records only 105 records had insurance cover note. Absence of a valid insurance certificate/cover note number results in vehicle getting registered without paying the insurance amount, a patently illegal act.

The Department stated that the audit findings will be checked from the original records under intimation to audit.

4.14.7.9 Lack of continuity of registration numbers

In a single series, 9,999 vehicles *i.e.* up to four digits can be awarded registration numbers. These numbers should be awarded in a sequence to monitor the year of registration of the vehicle.

Analysis of database revealed that registration in a subsequent series was started before the ongoing series was exhausted. The number of registration numbers unutilised in the 22 series checked is as shown in *Appendix 4.5*. This practice apart from indicating improper management of vehicle registration also gives rise to the possibility of misuse of the unused numbers.

The Department stated in the exit conference that rules regarding issue of choice registration numbers have been drafted and will be implemented after obtaining approval of the Government.

4.14.7.10 Non-entry of tax payment

As per Section 5 of the Manipur Motor Vehicles Taxation Act, 1998, tax leviable shall be paid in advance in a one-time tax valid till the vehicle attains the age of fifteen years at the prescribed rate.

Analysis of the database revealed that out of 27,911 vehicles, the tax amount was left blank in respect of 62 vehicles registered from 2003 onwards. This shows the lack of validation control in the system to ensure that the data relating to all the mandatory fields are entered. Accepting of blank entry in respect of an important mandatory field (tax) by the system in case of the new registration needs a detailed examination as it may give rise to the risk of evasion of tax.

The Department while admitting the observation stated that it will be verified whether the data were deliberately entered as backlog or exempted vehicles.

²⁹ *VT_VEHINS*:- Table containing insurance details of vehicles.

4.14.7.11 Inconsistency in the imposition of fine

Under Section 41 of Motor Vehicles Act 1988 read with Rule 47 of the CMV Rules 1989, an application for registration of a motor vehicle shall be made in Form 20 to the registering authority within a period of seven days from the date of taking delivery of such vehicle, excluding the period of journey and as per Rule 48, on receipt of an application under Rule 47 and after verification of the documents furnished therewith the registering authority shall issue to the owner of the motor vehicle a certificate of registration, within the period of thirty days from the receipt of such an application.

If the owner fails to make an application within the prescribed period, the registering authority may, having regard to the circumstances of the case, require the owner to pay, in lieu of any action that may be taken against him under Section 177, such amount not exceeding one hundred rupees. Moreover, the system has an inbuilt programme whereby fine is automatically imposed if the vehicle is registered after 30 days of the date of purchase.

Analysis of the database (*VT_ACCOUNT*³⁰ and *VT_OWNER*), however revealed inconsistency in the imposition of fine. Out of 28,014 records, 6,255 vehicles were registered after more than 30 days of the date of purchase. Further, out of the 6,255 vehicles, fine was imposed in respect of 2,041 vehicles, but, fine was not imposed in respect of 4,214 vehicles registered after 2003 onwards, *i.e.* after the introduction of computerisation in DTO Imphal West.

Such inconsistency needs detailed examination to ensure fair application of the provisions of the Rule/Act, thereby resulting in the realisation of the due revenue.

The Department stated in the exit conference that all the discrepancies noticed by audit will be scrutinised with original records and appropriate remedial action will be taken under intimation to audit.

4.14.8 Analysis of Smart Card table in VAHAN

4.14.8.1 Records repeated

Each entry for vehicle registration in the Smart Card database should be unique. Analysis of the database, however, revealed that there was repeated entry of 207 registration numbers involving 441 records (ranging between two to six times). This shows lack of validation control to ensure uniqueness of the Smart Card of a particular vehicle, resulting in redundancy of the data.

4.14.8.2 Different registration numbers assigned to the same vehicle

Registration number is the identification of a vehicle. Rule 48 of Central Motor Vehicles Rules 1989 provides that on receipt of an application under

³⁰ *VT_ACCOUNT*:- Table containing transactions of money like tax *etc.*

Rule 47 and after verification of the documents furnished therewith, the registering authority shall, subject to the provisions of Section 44, issue to the owner of the motor vehicle a certificate of registration in Form 23.

Analysis of the Smart Card table in VAHAN database revealed that two different registration numbers were assigned to the same vehicle in three cases involving three vehicles.

This shows lack of adequate validation controls in the system to ensure that only one unique registration number is assigned to a vehicle.

NIC stated that a different table should have been analysed, as this table recorded intermediate transactions in the process of the issue of the smart card. However, audit was of the view that even if it was intermediary in character, different registration numbers should not have been issued to the same vehicle.

4.14.8.3 Non-fulfillment of the terms of contract

As per Clause 4 of the agreement entered into between the Government of Manipur represented by the Commissioner of Transport and MANITRON on 15 April 2008 on the implementation of Smart Card, MANITRON was to provide all additional required machines/equipments/man-power for maintaining smooth operations of the Smart Card Project. The items of equipment inter alia included Smart Card readers and hand held terminals (HHT).

Test check, however, revealed that the HHTs which are essential for checking the Smart Cards had not been procured, even after seven months of the implementation of the Smart Card. The HHTs are necessary for the enforcement of the Act and Rules and the Department, Traffic and Police personnel needs to be imparted proper and timely training for successful implementation. Moreover, without the HHT the authenticity/reliability of the smart cards could not be ascertained. The Department needs to pursue with MANITRON for early procurement to ensure proper enforcement.

The Department stated that the matter will be pursued with MANITRON.

4.14.8.4 Partial implementation of smart card

The Smart Card based driving licence and registration certificate was implemented *w.e.f.* 2 November 2008 in DTO Imphal West. However, smart cards for the issue of permits for the commercial vehicles have not been implemented.

Analysis of the database (Smart Card table) revealed that 2,763 Smart Cards had been issued from 5 November 2008 to 30 May 2009 against 4,670 registration certificates issued during the same period. This shows 59 per cent implementation through the Smart Card. This shows that paper based registration certificates are still being issued in addition to the Smart Card. This shows lack of consistency in the implementation of Smart Card, thus

defeating the objective of maintaining a uniform tamper proof format of RCs/permits readable throughout the country.

The Department while admitting the observation stated that both paper and smart cards were used as there was no specific instruction that only smart cards should be used. However, audit was of the view that it did not serve the objective of maintaining a uniform format readable throughout the country.

4.14.9 SARATHI

4.14.9.1 System Design: Government Rules/Regulations not incorporated in the software

Audit noticed that the software did not provide adequate validation checks to ensure conformity with applicable rules and regulations of the Government regarding issue of the licences. The observations are as follows:

4.14.9.2 Repeated entry of records

Learners licence and driving licence are unique for each person. As per Rule 10 of the Central Motor Vehicles Rules, 1989, an application for the grant of a learner's licence shall be made in Form 2 accompanied by the necessary documents and as per Rule 13 every learner's licence issued by the licensing authority shall be in Form 3.

Analysis of the database revealed that out of a total of 1,794 records in the learner's license table, 616 learner's licence numbers were entered repeatedly involving 1,754 records. This indicated lack of validation control in the system to ensure uniqueness of learner's licence numbers by rejecting identical entries.

The Department stated that a written reply will be furnished. The reply is, however, awaited (December 2009).

4.14.9.3 Issue of driving licence before the expiry of the mandatory period after issue of learner's licence

As per Rule 15 of the Central Motor Vehicles Rules, 1989, no person shall appear for the test of competence to drive unless he has held a learner's licence for a period of at least thirty days.

Analysis of the database revealed that five driving licences were issued before the expiry of thirty days of the issue of learner's licence, the period ranging from three to fourteen days. This indicates weakness of the system to ensure adequate check in the proper implementation of the provisions of the relevant Act/Rules.

4.14.10 Management information system

An important feature of a computerised system is the possibility of readily generating the required information from it, for better management decisions. However, audit observed that though the system had the relevant information (vehicles with: lapsed registration, expired tax validity *etc.*) the department never made use of it in its enforcement activities.

4.14.11 General controls

General controls create an environment in which the application systems and application controls operate *e.g.*, IT policies, standards and guidelines pertaining to IT security and information protection. The observations on the adequacy of general controls are mentioned below:

4.14.11.1 Change management procedure

SARATHI software had not yet incorporated the additional fields in respect of place of birth and declaration of citizenship status as provided for by the Central Motor Vehicles (Amendment) Rules, 2007 vide notification no GSR 276(E) dated 10 April 2007. The same changes had not yet been incorporated in Form 2 (application for Learner's Licence) and Form 4 (application for Driving Licence).

Minor modifications were carried out to the software by NIC, Manipur from time to time as and when requested by the department. The changes/modifications as carried out had, however, not been documented. This resulted in the complete absence of trail to ascertain whether the changes sought for and carried out had been approved.

NIC stated that they maintain log of all the changes made on the software and the NIC Headquarters did not disclose the source code, but the Department admitted that they did not maintain any documented records of the changes made on the system.

4.14.11.2 Logical access control

Logical access controls are aimed at protecting computer resources (data, programs and terminals) against unauthorised access attempts, amendment or deletion to ensure that:

- users have only the access needed to perform their duties,
- access to very sensitive resources is limited to very few individuals and
- employees are restricted from performing incompatible functions or functions beyond their responsibility.

It was observed that although each and every operator had different user ID and password, the operators shared their password with each other and in case of one person who had been transferred, the user ID and password was being retained. Also, no documented password policy specifying the need to change

the password periodically was framed and circulated. There was no restriction of logon attempts to prevent access by the unauthorised users. As such the system was exposed to the risk of unauthorised access, amendments or deletion and consequent losses.

4.14.11.3 Environment controls

Environment controls are aimed at ensuring that the assets of the project are not put to risk due to fire/water damage, power cuts, failure of equipment due to temperature or humidity extremes *etc.* This requires that risk assessment and preventive measures be undertaken prior to implementing the project.

During audit it was seen that the department had neither undertaken any risk assessment nor had put any preventive measures like offsite storage, fire detection equipment and fire extinguishers, disaster management plans, *etc.* in place before putting the system in use.

The Department may undertake risk assessment and take appropriate measures to protect the data and equipments from various environmental risks.

4.14.11.4 Business continuity plan

Business continuity plan is necessary for recovering key business processes in the event of disaster. The objective is to reduce downtime and minimise loss to business.

Scrutiny of the vehicle registration system revealed that the department has no methodology of backing-up data. The department stated that the NIC regularly took back-up and stored the data at NIC, Manipur. However, no records were maintained by the department to indicate the date (s) on which the mock trials were conducted. There was no provision for off-site storage of the back-up data. The department also has no formal arrangement with the NIC, Manipur to ensure that back-up are taken regularly by the NIC.

The Department may consider having a proper back up and regular testing mechanism to ensure the backups are in a working condition.

4.14.11.5 Lack of security policy

In view of the inadequacy of the controls pointed out above, it is important to put in place security practices to protect its assets and data to ensure confidentiality, integrity and availability of the system that stores and process the data. The department has, however, not yet framed its IT security policy.

4.14.11.6 Monitoring and supervision

Involvement of senior management in implementation of the project was found to be deficient. There has been over reliance on the NIC for system maintenance, administration and back-up. There is no monitoring of data entry as has been evidenced by large number of incorrect/improbable data. There is

also duplicity in the fee collection and deposit in the treasury. Over and above the computer generated receipt, TR 5 is being made against each receipt for departmental accounting and deposit as the Government revenue.

4.14.12 Impact of computerisation

After the implementation of registration through *VAHAN*, the DTO Imphal West has been able to provide better and faster service to the public in the case of renewal as data can be accessed instantaneously. There has been better management of data and less storage space. However, the actual impact achieved by the Department due to computerisation cannot be assessed as the computerisation has not been made fully operational for all the modules.

4.14.13 Conclusion

There has been inordinate delay in commissioning the project. The system is operational in one DTO only, even though all necessary equipment, software and training of personnel had been provided for all the DTOs. Even after a lapse of more than five years from the date of installation (*DTO Imphal West*), all the modules are not yet operational and some of the applications are being done manually. There is lack of in-house expertise for running the system as there is over reliance on NIC for system maintenance, administration and backup. Involvement of top level management in the system implementation was inadequate. Lack of adequate supervision has resulted in erroneous data capture thereby resulting in data redundancy. The department has not implemented the practice of extracting useful information from the system regarding defaulters and has thus failed to exploit the full potential of the system.

4.14.14 Summary of recommendations

The Government should consider

- setting a fixed time frame for different stages of the computerisation and ensuring early completion of the project;
- maintenance of a well documented change management procedure for ensuring transparency and effective internal controls. The Department should maintain documents regarding approved changes/modifications made to the system;
- strengthening the validation control (duplicate engine/chassis number) at the time of data capture and also establishing links with the State/National Crime Record Bureau to pre-empt the scope for registration of stolen/lost vehicles;
- data integrity should be periodically checked and data capture should be complete;
- generation of MIS to be utilised for revenue collection and better enforcement of the Act and Rules; and

- drawing up an IT security policy with adequate documentation with a credible threat assessment mechanism and disaster recovery and business continuity plan for harnessing optimum output from the system.

The matter was reported to the Government (August 2009). Their reply is awaited (December 2009).

AUDIT OF TRANSACTIONS (REVENUE)

TAXATION DEPARTMENT

4.15 Non-assessment of professional tax

Professional tax amounting to Rs. 43.23 lakh including Rs. 26 lakh which had remained unrealised for more than three years was not realised from the Principal Officers

As per Section 7 of the Manipur Professions, Trades, Callings and Employment Taxation Act, 1981, every principal officer or employer registered or person enrolled under the Act shall submit to the assessing authority a return of professional tax in such form and within such time as may be prescribed.

Further, under Section 9 of the Act *ibid*, if income of any person has not been assessed or has been under assessed for any financial year, the Commissioner of Taxation Department {Assessing Authority (AA)} may, at any time within three years, serve the assessee a notice and proceed to assess or re-assess his income for assessing the actual professional tax payable by him.

Test check of the records (February - March 2009) of the Station Director, All India Radio (AIR), Imphal and the Station Director, Doordarshan Kendra, (DDK), Imphal revealed that the concerned principal officers had not paid professional tax amounting to Rs. 43.23 lakh³¹ due for the period from 2001-02 to 2008-09. However, no notice was served by the AA to the principal officers to assess their income and realise the tax despite the fact that out of this amount, Rs. 26 lakh had remained unrealised for more than three years.

The matter was reported to the Taxation Department/Government in June 2009. The department admitted the fact and stated (December 2009) that Rs. 0.97 lakh had been recovered so far and efforts for recovery of the remaining amount had been initiated.

³¹ Rs. 21.68 lakh (AIR) and Rs. 21.55 lakh (DDK), of which Rs. 13.12 lakh (AIR) and Rs. 12.88 lakh (DDK) was more than three years.

TRANSPORT DEPARTMENT

4.16 Non-collection of professional tax

Professional tax amounting to Rs. 24.95 lakh was not realised from 2,495 permit holders of goods vehicles, trucks and three wheelers by the Department

Under the provisions of the Manipur Professions, Trades, Callings and Employment Taxation Act, 1981, the Government appointed (October 2000) District Transport Officer (DTO) posted in districts as additional taxation officers for collection of professional tax in their administrative jurisdiction. Person(s) holding permit(s) for taxies, goods vehicles, trucks, buses and three wheelers were required to pay the professional tax at the rate of Rs. 1,000 per annum from 1 January 2001.

Test check of the records (April 2008) of the Director of Transport and the DTO, Bishnupur revealed that 2,495 permits were issued/renewed during 2005-08 in respect of various vehicles but professional tax amounting to Rs. 24.95³² lakh was not collected from the permit holders of these vehicles as shown below:

Category of vehicle	No of permits issued	No. of permits renewed	Total
Director of Transport			
Trucks & Goods vehicles	537	-	537
Bus	17	430	447
Taxi	57	473	530
Three Wheeler	450	-	450
Sub-total	1,061	903	1,964
DTO Bishnupur			
Trucks	382	Nil	362
Three wheelers	149	Nil	149
Sub-total	531		531
Grand total	1,592	903	2,495

After this was pointed out in audit, the DTO, Bishnupur stated (October 2008) that professional tax could not be collected as the permit holders did not come forward to pay the tax due, inspite of wide publicity for its timely payment. Demand notices were also stated to have been served to the concerned permit holders to clear the professional tax due against them. Progress on realisation of the tax due has not been received (May 2009).

The matter was reported to the Government (June-July 2008), their reply has not been received (December 2009).

³² 2,495 X 1,000 = 24,95,000 Say Rs. 24.95 lakh.

HOME DEPARTMENT

4.17 Non-realisation of cost of armed guards from banks

The department failed to realise Rs. 73.50 lakh towards charges for deployment of security guards in various banks

The Government of Manipur issued orders, from time to time, prescribing the rates of cost of armed guard for deployment of Police/Manipur Rifles/CRPF for bank security from time to time. The concerned banks were required to deposit the charges in the treasury and submit a copy of the challan to the Director General of Police (DGP) within the 10th day of the succeeding month. The DGP was responsible for monitoring regular deposit of such charges. In case of default for three consecutive months or more, the DGP shall withdraw the security from the defaulting bank. Restoration of security guards will be considered only after clearance of all outstanding charges plus penalty equivalent to the arrear amount.

Test check of the records (January 2009) of the office of the DGP Manipur revealed that the armed guard charges amounting to Rs. 73.50 lakh for security guards deployed for periods ranging from 7 months to 17 years to 11 branches of six banks³³ were not paid by the concerned banks. Of this, Rs. 29.45 lakh was pending for more than five years. Though the charges were not paid, the security guards were continued to be deployed in these defaulting banks/branches. There was nothing on record to indicate that the security guards were at any time withdrawn. Thus, revenue amounting to Rs. 73.50 lakh was not realised.

After this was pointed out the department intimated (December 2009) that Rs. 4.90 lakh out of Rs 17.13 lakh had been recovered from three³⁴ banks. Report on recovery of the remaining amount and that due from other banks has not been received (October 2009).

The matter was referred to the Government (July 2009); their reply has not been received (December 2009).

³³ (1) State Bank of India at Canchipur (2) to (6) Imphal Urban Co-operative Bank at M.G Avenue, Lamlong, Paona bazaar, B.T. Road and Singjamei (7) to (8) United Bank of India at Ukhrul and Tamenglong (9) Manipur women co-operative Bank, Imphal (10) Manipur Rural Bank, Keishampat and (11) Manipur State Co-Operative Bank, Imphal.

³⁴ (1) Imphal Urban Co-operative Bank at M.G Avenue (2) United Bank of India, Tamenglong and Manipur State Co-Operative Bank, Imphal.

POWER DEPARTMENT

4.18 Misappropriation of Government revenue

Electricity bill amounting to Rs. 15.60 lakh paid by a consumer was utilised for unofficial purpose

As per Rule 7(1) of the Central Treasury Rules Vol.-I as applicable in the State, all moneys received on account of Government revenues shall without undue delay be paid into the treasury and money so received shall not be kept apart from the accounts of the Government.

Test check of the records (September 2008) of the Executive Engineer (EE), Kangpokpi Electrical Division revealed that the Garrison Engineer, 869 – Engine, Leimakhong (Consumer No L-12), had paid energy and demand charges amounting to Rs. 15.60 lakh vide two cheques dated January 2007 and November 2007. The details of remittance of the said revenue including copies of the relevant challans were not on record. This amount was neither taken into the cash book nor accounted for in the monthly accounts of the division.

After this was pointed out in audit, the divisional officer stated (July 2009) that the said cheques were deposited into the division's bank account with State Bank of India in February 2007 and December 2007 respectively and encashed for unofficial purposes in piecemeal basis by self cheque between March 2007 and January 2008, by a former executive engineer who retired on 28 February 2008. As such the amount was neither depicted in the cash book nor was it depicted in the monthly accounts. Thus, Government revenue amounting to Rs. 15.60 lakh has been misappropriated. The police and other action taken by the department against the persons responsible for the criminal act of misappropriation and efforts made to recover the amount were not intimated to audit (December 2009).

The matter was referred to the Government (July 2009); their reply has not been received (December 2009).

4.19 Short levy of electricity charges

Application of incorrect rate of billing resulted in short levy of electricity charges of Rs. 39.67 lakh

As per Manipur Electricity Supply (Amendment) Regulations, 2002, energy charge for bulk consumer (load above 10 KW) without meter shall be levied at a flat rate of Rs. 458.50 per KW of the contract demand per month. In the case of medium industries (load above 10 KW but less than 50 KW) and large industries (load above 50 KW) without meter, monthly energy charges shall be Rs. 342 and Rs. 399 per KW of the contract demand respectively. Consumers with meter, however, shall be billed as per meter reading subject to a

minimum prescribed amount³⁵. In all these cases, an additional demand charge shall be levied at the rate of Rs. 74 per KW on 60 *per cent* of the contract demand per month.

Test check of the records of the Executive Engineer (EE), Churachandpur Electricity Division, (August 2008), EE, Bishnupur Electricity Division and EE, Kangpokpi Division (November 2008) revealed that the six bulk consumers were not provided meters while in one industrial unit³⁶ meter was not in working condition. Thus, the consumers were liable to pay energy charges at flat rates and demand charges as per the Regulation *ibid*, which amounted to Rs. 1.04 crore. However, the department levied energy charges either at the minimum rate applicable to power connection with meter or at a rate lesser than the minimum rate. Demand charges were also worked out incorrectly. The revenue realised due to adoption of incorrect rates of energy charges and demand charges was Rs. 64.34 lakh, resulting in short realisation of revenue of Rs. 39.67 lakh.

After this was pointed out, the EE, Bishnupur Division stated (November 2008) that revised bills would be served to the consumers and the position of recovery of electricity charges short levied would be furnished to audit. However, position of revenue realisation as per revised bill has not been intimated (December 2009).

The matter was pointed out (May-June 2009) to the Government. While the Government stated (July 2009) that revised bill amounting to Rs. 36.57 lakh had been served to the consumers of Kangpokpi Division, no reply in respect of Churachandpur Division has been furnished (December 2009).

³⁵ Rs. 273 (Bulk consumers), Rs. 204 (medium industries) and Rs. 235 (large industries) per KW of contract demand per month.

³⁶ The unit was medium industry up to December 2005 and thereafter a large industry.