

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 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years as mentioned below:

(₹ in crore)

		2006-07	2007-08	2008-09	2009-10	2010-11
I.	Revenue raised by the State Government					
	• Tax revenue	121.56	147.45	170.06	196.04	267.05
	• Non-tax revenue	181.04	164.71	253.46	239.74	259.88
	Total:	302.60	312.16	423.52	435.78	526.93
II.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes	436.33	550.40	580.81	597.56	990.57 ¹
	• Grants-in-aid	2,123.80	2,645.71	2868.28	2839.79	3912.44
	Total:	2,560.13	3,196.11	3449.09	3437.35	4903.01
III.	Total receipts of State Government (I+II)	2,862.73	3,508.27	3872.61	3873.13	5429.94
IV.	Percentage of I to III	11	9	11	11	10

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 526.93 crore) was ten *per cent* of the total revenue receipts against eleven *per cent* in the preceding year. The balance ninety *per cent* of receipts during 2010-11 was from the Government of India.

¹ For details refer "tax revenue" of statement 11, detailed account of revenue by minor heads of the Finance Accounts of the Government of Manipur, 2010-11. 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 - Customs, 0038- 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.

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Sales Tax/VAT	96.64	120.76	141.38	163.28	227.57	(+) 39.37
2.	State Excise	3.62	3.75	3.91	4.70	6.61	(+) 40.64
3.	Stamps and Registration Fees	2.83	2.93	3.18	4.26	3.57	(-) 16.20
4.	Taxes and Duties on Electricity	0.19	²	0.39	0.01	0.003	(-) 70.00
5.	Taxes on Vehicles	3.19	3.57	4.03	4.35	4.44	(+) 2.07
6.	Taxes on Goods and Passengers	0.60	0.76	0.80	0.81	0.90	(+) 11.11
7.	Other Taxes on Income and Expenditure	13.30	14.73	15.46	17.63	18.77	(+) 6.47
8.	Other Taxes and Duties on Commodities and Services	0.18	0.20	0.13	0.19	3.90	(+) 1952.63
9.	Land Revenue	1.01	0.75	0.78	0.81	1.29	(+) 59.26
	Total	121.56	147.45	170.06	196.04	267.05	(+) 36.22

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

Taxes on Vehicles: The increase was attributed to increase of vehicle population.

Taxes on Goods and Passengers: The increase was attributed to increase of vehicle population.

Stamps & Registration Fees: Stamps Duty & Registration Fees are of voluntary nature and it depends upon the number of registered transactions.

The other Departments did not inform (January 2012) the reasons for variation, despite being requested (August 2011).

² ₹ 9,000 only.

4.1.3 The following table presents the details of the non-tax revenue raised during the period 2006-07 to 2010-11.

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase(+)/ decrease (-) in 2010-11 over 2009-10
1.	Interest Receipts	35.05	27.61	39.99	32.73	44.65	(+) 36.42
2.	Housing	0.68	1.72	1.30	0.71	0.66	(-) 7.04
3.	Water Supply and Sanitation	1.39	1.58	6.89	9.48	14.21	(+) 49.89
4.	Forestry and Wild Life	1.52	1.45	1.02	2.25	2.1	(-) 6.67
5.	Education, Sports, Art and Culture	0.94	0.90	0.91	1.21	1.14	(-) 5.79
6.	Miscellaneous General Services	82.46 ³	54.24 ⁴	92.77 ⁵	61.47	76.87	(+) 25.05
7.	Power	40.24	62.29	88.28	104.07	88.29	(-) 15.16
8.	Medium Irrigation	7.85	5.26	8.00	7.00	10.49	(+) 49.86
9.	Medical and Public Health	0.24	0.25	0.52	0.12	0.1217	(+) 1.42
10.	Co-operation	0.12	0.12	0.16	0.16	0.19	(+) 18.75
11.	Public works	7.83	6.14	7.96	17.65	16.88	(-) 4.36
12.	Police	0.57	0.42	3.36	0.94	0.88	(-) 6.38
13.	Other Administrative Services	0.63	1.07	0.59	0.38	1.08	(+) 184.21
14.	Crop Husbandry	0.30	0.10	0.07	0.25	0.18	(-) 28.00
15.	Others	1.22	1.56	1.64	1.32	2.14	(+) 62.12
Total		181.04	164.71	253.46	239.74	259.88	(+) 8.40

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

Medium Irrigation: The increase was attributed to excess recovery of interest on Mobilisation and Machinery advance during the year.

Co-operation: The increase was attributed to recovery of pending audit fees for the last year from Cooperative Societies and Voluntary Organisations.

³ Includes debt relief of ₹ 75.08 crore given by Government of India on repayment of consolidated loan.

⁴ Includes debt relief of ₹ 37.54 crore given by Government of India on repayment of consolidated loan.

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

Water Supply and Sanitation: The increase was attributed to the inclusion of 11.75 per cent Departmental charges and also to Revision of Water Tax from ₹ 75 to ₹ 150 per month.

Power: The decrease was attributed to less realisation of energy charges from the State Government Departments.

The other Departments did not inform (January 2012) the reasons for variations, despite being requested (August 2011).

4.1.4 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts under the principal heads of Tax and Non-Tax revenue for the year 2010-11 are mentioned in the following table:

(₹ in crore)

Sl. No.	Head of Revenue Receipt	Budget estimates	Actuals	Variation increase (+) decrease (-)	Percentage
Tax Revenue					
1.	Sales Tax/VAT	220.0	227.57	(+) 7.57	(+) 3.44
2.	State Excise	6.0	6.61	(+) 0.61	(+) 10.17
3.	Stamp Duty and Registration Fees	10.0	3.57	(-) 6.43	(-) 64.30
4.	Taxes on Vehicles	15.0	4.44	(-) 10.56	(-) 70.40
5.	Taxes on Goods and Passengers	2.0	0.90	(-) 1.10	(-) 55.00
6.	Land Revenue	5.0	1.29	(-) 3.71	(-) 74.2
Non-tax Revenue					
7.	Interest Receipts	45.0	44.65	(-) 0.35	(-) 0.78
8.	Other Administrative Services	1.47	1.08	(-) 0.39	(-) 26.53
9.	Medical and Public Health	0.57	0.12	(-) 0.45	(-) 78.95
10.	Public Works	11.46	16.88	(+) 5.42	(+) 47.29
11.	Forestry and Wildlife	5.0	2.1	(-) 2.90	(-) 58.00
12.	Education, Sports, Art and Culture	1.66	1.14	(-) 0.52	(-) 31.32
13.	Power	160.0	88.29	(-) 71.71	(-) 44.82

Source: Receipt Budget and Finance Account for the year 2010-11.

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

Finance Department stated (February 2012) that the variations in respect of Power, Forestry and Wildlife and Major and Medium Irrigation were mainly on account of non-realisation of anticipated additional resource mobilisation measures. Further, the Department stated that the reasons for variations in respect of State Excise, Public Works and Water Supply & Sanitation could be due to collection of arrears.

Taxation Department stated (February 2012) that the variation in VAT receipts with reference to the estimate was due to increase in tax rate and hard effort by the Department officials.

Transport Department stated (February 2012) that the variations in Taxes on Vehicles and Taxes on Goods and Passengers were due to low rate of taxes, less registration of heavy vehicles, condemnation of large number of old/outdated vehicles. Further, the Department stated that the works of revenue mobilisation activities were hampered as the entire tax collection staff of each and every DTO was engaged for carrying out various other activities from time to time.

Reasons for variations from other Departments were awaited (February 2012).

4.1.5 Cost of Collection

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the period 2008-09 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collections for 2009-10 are mentioned in the following table:

(₹ in crore)						
Sl. No.	Head of revenue	Year	Gross Collection	Expenditure on collection	Percentage of expenditure to gross on collection	All India average percentage for the year 2009-10
1.	Sales Tax/ VAT	2008-09	141.38	1.62	1.15	0.96
		2009-10	163.28	1.54	0.94	
		2010-11	227.57	2.46	1.08	
2.	State Excise	2008-09	3.91	1.75	44.76	3.64
		2009-10	4.70	1.74	37.02	
		2010-11	6.61	2.05	31.01	
3.	Taxes on Vehicles	2008-09	4.03	1.96	48.64	3.07
		2009-10	4.34	1.90	43.78	
		2010-11	4.44	2.89	65.09	
4.	Stamp Duty and Registration Fees	2008-09	3.18	0.81	25.47	2.47
		2009-10	4.25	1.27	29.88	
		2010-11	3.57	1.21	34.00	

Source: Finance Accounts

Thus, the cost of collection in respect of Sales Tax/VAT was lower than the all India average percentage for the year 2009-10, while in the case of State Excise, Taxes on Vehicles and Stamp Duty and Registration Fees, were considerably higher. Taxation Department stated (February 2012) that variation of expenditure on collection was due to grant of ACP to employees and adoption of recommendations of 6th Pay Commission for the State employees. Transport Department stated (February, 2012) that higher cost of collection in comparison with all India average was due to disbursement of ACPs (I & II) and its arrears, payment of huge amount in pensionary benefits to the retired employees and dependents of deceased persons *etc.* The other

Departments did not inform about the reasons for higher cost of collection (February 2012).

4.1.6 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on Sales Trade/VAT during the year 2010-11 as furnished by the Taxation Department is mentioned in the following table:

(₹ in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per Department	Percentage of column 3 to 7
1	2	3	4	5	6	7	8
Sales Tax/VAT	2010-11	154.84	2.53	Nil	Nil	157.37	98.39

Collection made under Sales tax/VAT at the pre-assessment stage was to the extent of 98.39 per cent whereas 1.61 per cent of the net collection was collected after regular assessment.

4.1.7 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 in respect of the principal Heads of Revenue as reported by the Departments was ₹ 3.64 crore of which ₹ 0.48 crore (13.19 per cent) were outstanding for more than five years as per details mentioned in the following table:

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2011	Amount outstanding for more than five years	Remarks
1.	Taxes/VAT on Sales, Trades etc.	2.97	0.48	Recovery under Manipur Land Revenue Act is under process.
2.	Taxes on Vehicles	0.32	Nil	Several Demand notices have been served to different defaulting vehicle owners for clearing/paying their outstanding Taxes/Fees without further delay.
3.	Taxes on Goods and Passengers	0.15	Nil	Same as above.
4.	Other Taxes on Income and Expenditure	0.20	Nil	Recovery under installment basis is being done.
Total		3.64	0.48	

Source: State Department.

4.1.8 Arrears in assessment

The details of Sales Tax/VAT assessment cases pending at the beginning of the year 2010-11, 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 2010-11 as furnished by the Deputy Commissioner of Taxes are mentioned below:

Head of revenue	Opening balance as on 31 March 2010.	New cases due for assessment during 2010-11.	Total assessment due	Cases disposed of during 2010-11	Balance at the end of the year 2010-11.	Percentage of disposals to the total assessments 5 to 4
1.	2.	3.	4.	5.	6.	7.
Taxes/VAT on Sales, Trades etc.	240	2418	2658	2478	180	93.23

4.1.9 Evasion of Tax

The details of cases of evasion of tax detected, cases finalised and demands for additional tax raised in 2010-11, as reported by the Departments concerned are mentioned in the following table:

Name of tax/duty	Cases pending as on 31 March 2010	Cases detected during 2010-11	Total	Number of cases in which assessments/ investigation completed and additional demand including penalty etc., raised during the year 2010-11		Number of pending cases as on 31 March 2011
				No. of cases	(₹ in lakh)	
Sales Tax/VAT	16	6	22	05	11.00	17
Taxes on Vehicles	254	118	372	277	15.98	95
Goods and Passengers	103	28	131	108	12.77	23

Source: State Departments

4.1.10 Refunds

The information on refunds in case of Sales Tax/VAT and Stamp Duty and Registration Fee during 2010-11 is mentioned in the following table:

(₹ in lakh)

Sl.No.	Particulars	Sales Tax/VAT		Stamp Duty and Registration Fee	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	08	5.21	Nil	Nil
2.	Claims received during the year	02	28.31	12	2.15
3.	Refunds made during the year	02	2.65	12	2.15
4.	Balance outstanding at the end of the year	08	30.87	Nil	Nil

4.2 Response of the Departments/Government towards audit

Transactions and maintenance of important accounts and other records of the departments are test-checked and Inspection Report containing audit findings is issued to the Head of the Office so audited for comments and/or compliance. Audit findings of serious nature are processed into draft paragraph and forwarded to the Administrative Head of the concerned Department through demi-official letter drawing their attention to the audit findings with a request to furnish their response within six weeks. The response of the Departments/Government towards audit is discussed in succeeding paragraphs.

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

The Accountant General (Audit), Manipur (AG) conducts periodical inspection of the Government Departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

Inspection Reports issued up to December 2010 disclosed that 1282 paragraphs involving ₹ 978.49 crore relating to 417 IRs remained outstanding at the end of June 2011 as mentioned in the following table along with the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of outstanding IRs	360	401	417
Number of outstanding audit observations	1,104	1231	1282
Amount involved (₹ in crore)	678.97	894.8	978.49

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned in the following table:

Sl. No.	Name of Department	Nature of Receipts	No. of Outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1.	Public Health Engineering Department	Water Supply & Sanitation	34	79	29.01
2.	Power	Taxes and Duties on Electricity	118	364	874.01
3.	Revenue	Land Revenue	73	199	19.32
4.	Revenue	Stamps and Registration Fees	3	7	0.11
5.	Health & Family Welfare	Medical and Public Health	4	9	0.25
6.	Fishery	Fisheries	16	41	0.41
7.	Excise	State Excise	15	37	4.65
8.	Finance	Taxes/VAT on Sales, Trade, etc	46	237	21.01
9.	Finance	Miscellaneous General Services/Lottery	4	25	19.37
10.	Transport	Taxes on Vehicles/Taxes on Goods and Passengers	53	172	5.78
11.	Forest & Environment	Forest & Wild Life	51	112	4.57
Total			417	1282	978.49

Even the first replies required to be received from the Heads of Offices within one month from the date of issue of the IRs were not received for 244 IRs issued up to December 2010. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of Offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

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

4.2.2 Departmental Audit Committee Meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, Departmental Audit Committees 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 (AG). The audit committees need to meet regularly in order to expedite clearance of the

outstanding audit observations. At the instance of AG, the State Level Audit Committee meeting, attended by the concerned Principal Secretaries and Commissioners was convened on September 28, 2009. In spite of this, no Audit Committee Meetings in respect of revenue auditee units had been held till date.

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

4.2.3 Response of the Departments to the draft audit paragraphs

Four draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2011 were forwarded (September 2011) to the Secretaries/Commissioners of the respective Departments through demi-official letters. The administrative Secretaries/Commissioners did not furnish replies (January 2012) in respect of these draft paragraphs.

4.2.4 Follow up on Audit Reports – summarised position

As per recommendations made by the High Powered Committee (HPC) which were also accepted by the State Government in October 1993, *suo moto* explanatory notes on corrective/remedial measures taken on all paragraphs included in Audit Reports are required to be submitted by the Departments duly vetted by the Accountant General to PAC within three months from the date of placing of Audit Reports in the Legislature.

However, as of November 2011, *suo moto explanatory* notes pertaining to 65 paragraphs/reviews for the Audit reports for the years 2000-2010 were not received within the stipulated period of three months either from the Departments or through the Manipur Legislative Assembly Secretariat.

4.2.5 Compliance with the earlier Audit Reports

In the Audit Reports 2005-06 to 2009-10 cases of under assessments, evasion, non/short levy of taxes/penalty, loss of revenue, failure to raise demands *etc.* involving ₹ 22.11 crore were reported. As of March 2011, the Departments concerned have accepted observations of ₹ 8.99 crore and recovered ₹ 0.19 crore. Audit Report wise details of cases accepted and recovered are given in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	0.99	0.13	0.02
2006-07	1.87	1.01	0.02
2007-08	6.75	0.96	0.04
2008-09	6.77	3.81	0.11
2009-10	5.73	3.08	0.0025
Total	22.11	8.99	0.1925

4.3 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years in respect of one Department is evaluated and included in each Audit Report.

The succeeding paragraphs 4.3.1 to 4.3.2.2 discuss the performance of Taxation Department in dealing with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Reports for the years 2000-01 to 2009-10.

4.3.1 Position of Inspection Reports

The summarised position of Inspection Reports issued during the last 10 years, paragraphs included in these Reports and their status as on 30 June 2011 are given in the following table:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
01-02	48	239	9.60	5	32	1.40	0	2	0	53	269	11.00
02-03	53	269	11.00	0	0	0	0	3	0.87	53	266	10.13
03-04	53	266	10.13	8	21	1.18	22	77	3.64	39	210	7.67
04-05	39	210	7.67	0	0	0	0	8	1.32	39	202	6.35
05-06	39	202	6.35	5	13	5.12	0	4	0.44	44	211	11.03
06-07	44	211	11.03	0	0	0	0	0	0	44	211	11.03
07-08	44	211	11.03	4	22	1.22	0	0	0	48	233	12.25
08-09	48	233	12.25	5	23	9.73	0	4	0.27	53	252	21.71
09-10	53	252	21.71	3	15	2.12	12	43	8.64	44	224	15.19
10-11	44	224	15.19	2	13	5.82	0	0	0	46	237	21.01

We reminded the Department periodically to furnish replies to the outstanding audit observations.

4.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

4.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years and those accepted by the Department and the amount recovered are mentioned in the following table:

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs (₹ in crore)	No. of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2000-01	7	1.30	5	0.92	0.79	0.79
2001-02	4	0.26	2	0.16	0.00	0.79
2002-03	7	0.72	2	0.51	0.03	0.82
2003-04	10	1.82	10	1.82	0.16	0.98
2004-05	7	0.63	6	0.25	0.00	0.98
2005-06	8	0.99	3	0.13	0.02	1.00
2006-07	7	1.87	3	1.01	0.02	1.02
2007-08	8	6.75	4	0.96	0.04	1.06
2008-09	7	6.77	3	3.81	0.11	1.17
2009-10	7	5.73	3	3.08	0.0025	1.1725
Total	72	26.84	41	12.65	1.1725	

From the above table it is seen that though the Departments had accepted 57 *per cent* of the paras, recovery against accepted paras was very poor, since against ₹ 12.65 crore accepted on the paragraphs by the Departments, recovery was only ₹ 1.17 crore, which is a mere nine *per cent*. As can be seen, recovery in two of the previous ten years was NIL.

The Departments need to evolve a strong mechanism to monitor and ensure recovery of accepted cases.

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

The draft Performance Audits (PAs) conducted by the AG are forwarded to the concerned departments/Government for their information with a request to furnish their replies. These PAs are also discussed in an Exit Conference and the Department's/Government's views are included while finalising the PAs for the Audit Reports.

The following paragraphs discuss the issues highlighted in the reviews on the Taxation Department featured in the last 10 Audit Reports including the recommendations and action taken by the department on the recommendations accepted by it as well as the Government.

Year of Audit Report	Name of the review	No. of recommendations	Details of the recommendations accepted
2003-04	PA on Sales Tax including Internal Control System prevalent in the Department	5	Department's reply on the implementation of the recommendations made not received.
2008-09	Transition from Sales Tax to Value Added Tax (VAT) System	7	-do-

The draft PAs were forwarded to the Department and the audit findings and recommendations were discussed with the representatives of the Government and officers of the Department during the Exit Conference. Compliance to audit observations and recommendations have not been intimated. The Department needs to monitor and ensure that audit recommendations are taken to their logical conclusion.

4.4 Audit planning

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

During the year 2010-11, the audit universe comprised of 72 auditable units of which 34 units were planned and 25 units audited during the year which is 35 *per cent* of the total auditable units.

Besides compliance audit, two Performance Audits on “Cross verification of declaration forms used in Inter State Trade” and “IT Audit on Computerisation of Motor Vehicles Department” were also taken up.

4.5 Results of audit

4.5.1 Position of local audit conducted during the year

Test-check of the records of 25 units of Electricity Receipts, Motor Vehicles, Forest and other Departments conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue/non-realisation of outstanding revenue aggregating ₹ 176.14 crore in 58 cases. Of these the Departments recovered ₹ 7.95 crore in 13 cases.

4.5.2 This Report

This Report contains four paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) and two Performance Audits on “**Cross verification of declaration forms used in Inter State Trade and Commerce**” and “**IT Audit on Computerisation of Motor Vehicles Department**” involving financial effect of ₹ 3.73 crore. The Departments/ Government have accepted audit observations involving ₹ 2.49 crore out of which ₹ 0.92 lakh has been recovered . The replies in the remaining cases have not been received (January 2012). These are discussed in succeeding paragraphs.

PERFORMANCE REVIEWS (REVENUE)

TAXATION DEPARTMENT

4.6 Performance Audit on “Declaration forms in Inter State Trade and Commerce”

The Central Sales Tax Act, 1956 (CST Act) and the Rules framed thereunder provide for concessional rate of tax in respect of Inter State sales and branch transfers. These concessions/exemptions are subject to furnishing of declarations in the prescribed forms viz. ‘C’, ‘F’ *etc.* Failure to furnish the declarations or submission of fake, misuse or invalid declaration forms *etc.* will make the transactions liable to tax as applicable to sales in the appropriate State.

Cross verification of declaration forms used in Inter-State trade was conducted across the States and Union Territories to check the genuineness of these declaration forms wherein all the information collected was cross checked with the Commercial/Sales Tax Departments of other States and Union Territories. The various irregularities noticed during this review are discussed in the succeeding paragraphs.

Highlights

The Department had no mechanism in place for periodic review of the stock of forms held by it so as to ensure that old, obsolete, defective or unused forms were either destroyed after obtaining the approval of the competent authority or otherwise secured so as to obviate the possibility of their misuse. No physical verification of statutory forms held by the Commissionerate was done during the period covered by audit except once on 23 September 2009 in respect of Form ‘F’.

(Paragraph 4.6.9.1)

The Department did not adopt enforcement measures like blacklisting of the dealers who had been found utilising invalid/fake Declaration forms in the past and circulation of the names of such dealers among various units and States to establish the authenticity of Declaration forms.

(Paragraph 4.6.9.3)

The information regarding dealers and Declaration forms issued to the dealers were not uploaded on the TINXSYS website promptly. The Department had not installed any system of either verification of each and every Declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax or cross verification of the purchase values shown in the utilisation statement/counterfoil of utilised ‘C’ forms issued to dealers with those in the database in the TINXSYS website while settling/finalising the tax

returns. Out of 16 modules developed by the Department, only one module was functional online. The TINXSYS website remained non-functional and inaccessible and statutory forms were not issued online.

(Paragraph 4.6.9.4)

Our cross verification of 'C' Declaration Forms revealed that one form was fake as it was not issued by the Department, six forms projected as issued by the Department were incorrect and twenty forms were issued by the Department to eleven dealers other than the corresponding purchasing dealers. While finalising the assessments, the assessing authorities allowed concessional rates on these 27 forms without checking these irregularities. The tax effect involved was ₹ 8.81 lakh. Besides, penalty of ₹ 17.61 lakh was also leviable.

(Paragraph 4.6.10.1.1)

While finalising the assessments of seven dealers, the assessing authorities allowed concessional rate of tax by accepting Declarations which were either not supported by 'C' forms or were supported by 'C' forms which were filed beyond the stipulated time. Such irregular assessments involved short levy of tax of ₹ 30.98 lakh.

(Paragraph 4.6.10.1.3)

Our scrutiny of 'C' Declaration forms/utilisation statements revealed that the assessing authorities, while finalizing the assessments, accepted purchase turnover of ₹ 10.99 crore as against actual purchase turnover of ₹ 23.09 crore. Suppression of these Inter-State purchases and consequent sales turnover involved tax and penalty of ₹ 2.65 crore.

(Paragraph 4.6.10.2.1)

While finalising the assessments, the assessing authority allowed exemption of tax on stock transfer of ₹ 30.92 lakh made by a dealer, which was not supported by form 'F' Declaration. The tax effect involved was ₹ 3.87 lakh.

(Paragraph 4.6.10.3)

4.6.1 Introduction

The Central Sales Tax Act, 1956 (CST Act) and the CST (Registration and Turnover) Rules, 1957 framed thereunder regulate the assessment, levy and collection of tax on Inter State transactions. Under this Act, registered dealers are eligible to certain concessions and exemptions of tax on Inter State transactions on submission of prescribed declarations in Form 'C', 'F' etc. The State Governments grant these incentives to dealers for furtherance of trade and commerce. It is the responsibility of the Commercial Tax Departments to ensure proper accountal of the declaration forms and to take

adequate safeguards against misutilisation of declaration forms on which tax relief is allowed.

4.6.1.1 Form 'C'

Under the provisions of the CST Act, goods are purchased by registered dealers from outside the State on payment of tax at a concessional rate of four *per cent* up to 2006-07, 3 *per cent* and 2 *per cent* from April 2007 and June 2008 respectively by issuing declaration in Form 'C'. Similarly, on sale of goods to a registered dealer of another State, tax is leviable at a concessional rate at the aforesaid rates subject to furnishing of declaration in Form 'C' obtained from the registered purchasing dealers. In the event of failure on the part of a dealer to obtain and produce such declaration forms, tax is leviable in respect of declared goods⁶ at twice the rate applicable to the rate on purchase of such goods inside the State and in case of other goods, at the rate of 10 *per cent* or at the rate applicable to the sale or purchase of such goods within the State, whichever is higher.

4.6.1.2 Form 'F'

The CST Act also provides that goods transferred by a dealer outside the State to any place of his business or to his agent or principal are not liable to tax provided such transfer is supported by a declaration in Form 'F' obtained from the transferee along with evidence of dispatch of such goods to substantiate the claim of transfer. If the dealer fails to furnish such declaration then the movement of such goods shall be deemed to have been occasioned as a result of sale under the CST Act.

4.6.1.3 Penal provisions

Under the Manipur Value Added Tax (MVAT) Act, 2004, if the Commissioner of Taxes is satisfied that the dealer, in order to evade or avoid payment of tax, has furnished incomplete and incorrect return for any period, he shall direct that the dealer shall pay, by way of penalty, a sum equal to twice the amount of additional tax assessed.

The provision for levy of penalty as provided in the State Sales Tax law is applicable *mutatis mutandis* in cases of violation of the provisions of the CST Act & Rules thereunder.

4.6.1.4 TINXSYS.com

The Empowered Committee of State Finance Ministers had authorised a website www.tinxsys.com (TINXSYS.com) to serve as a repository of Inter-State Trade transactions. Apart from the dealer verification, the Tax Department officials would use TINXSYS for verification of central statutory

⁶ Goods of special importance in Inter State Trade or Commerce as described in sec 14 of the CST Act.

forms used by other State Commercial Tax Departments and submitted to them by the dealers in support of the claims for concessions.

4.6.2 Organisational set up

The Commissioner of Taxes assisted by an Accounts Officer is responsible for administration of the Acts and Rules at the apex level of the Department including printing, receipt and distribution of declaration forms to each Zone/dealers. The State of Manipur is divided into ten taxation Zones. Two Zones⁷ are under the charge of an Assistant Commissioner of taxes and the remaining zones are under the charges of a Deputy Commissioner of Taxes and eight Superintendents of Taxes⁸.

The zonal officers are responsible for registration, distribution of Declaration forms to dealers and assessment of dealers. No Inter State Investigation Wing/Investigation Wing/Intelligence Wing exists in the Department.

4.6.3 Audit objectives

The Performance Audit was conducted with a view to ascertain whether:

- there existed a foolproof system for custody and issue of the declaration forms;
- exemption/concession of tax granted by the assessing authorities was supported by the original declaration forms;
- there was a system for ascertaining genuineness of the forms for preventing evasion of tax;
- there was a system of uploading the particulars in the TINXSYS website and the data available there was utilised for verifying the correctness of the forms;
- appropriate steps were taken on receipt and detection of fake, invalid and defective forms; and
- there existed an effective and adequate internal control mechanism.

4.6.4 Audit Criteria

The criteria benchmarked for achieving the audit objectives are:

- the Central Sales Tax Act, 1956 and the Central Sales Tax (Registration and Turnover) Rules, 1957;
- notifications/orders of the Executive body and Department;
- the Manipur Sales Tax (MST) Act ,1990; and

⁷ Zones-I and VA

⁸ two Superintendents of Taxes (ST) in Headquarters Zone and one ST in Zone- VB

- the Manipur Value Added Tax Act, 2004 (MVAT Act) and the Rules framed thereunder.

4.6.5 Scope of Audit

The Performance Audit was taken up between November 2010 and July 2011 covering:

- assessments completed during the period from 2007-08 to 2009-10, where exemptions/concessions were granted under the CST Act; and
- returns filed and assessments made under the MVAT Act for the period up to March 2010.

The Office of the Commissioner of Taxes including all the ten Zones, and Check Posts at Moreh and Jiribam were selected for scrutiny.

The materials collected during audit including Declaration forms were submitted to Headquarters for onward transmission to the concerned field offices to verify the genuineness of the forms/claims.

4.6.6 Audit Methodology

Audit methodology consisted of holding of Entry Conference (November 2010), issue of requisitions and questionnaires, scrutiny of the assessment records, counterfoils of Declaration forms and the statements of utilisation of Declaration forms, cross verification of the quantum of the goods purchased from outside the State, sending of Declaration forms to other States for verification of their genuineness and accountal of cross verification results received from other AGs.

Out of 449 declarations in forms 'C' & 'F' received from the Headquarters pertaining to ten States, 304 forms were verified. This office sent 160 declarations in form 'C' to nine AGs for verification to establish their genuineness. The verification results in respect of 143 forms from the nine AGs were received, 12 forms were not found verified due to non production of records *etc.* Reports on verification in respect of 5 forms from the States of Madhya Pradesh (4 forms) and Maharashtra (1 form) were awaited (January 2012). Audit findings were discussed with the Departmental officers in an Exit Conference (October 2011) and their replies/views have been incorporated in the Performance Audit.

4.6.7 Acknowledgement

The Indian Audit & Accounts Department acknowledges the cooperation extended by the Department of Taxes in providing necessary information and records to us.

4.6.8 Trend of revenue from CST

The position regarding the budget estimates of revenue from State VAT and CST and the actuals from CST during 2006-11 is as given in the following table:

(₹ in crore)

Year	Budget estimates (VAT and CST)	Actual realisation (CST)	Percentage of increase (+)/decrease (-) in CST realisation
2006-07	72.80	2.69	-
2007-08	100.00	0.43	-84
2008-09	128.80	5.50	+1179
2009-10	146.83	23.29	+323
2010-11	220.00	13.50	-42

Source: Departmental records/Finance Accounts

The Department could not furnish to us the reasons for non fixation of budget estimate for CST . In the absence of the separate budget estimate for CST the percentage of variation of revenue realised against the budget estimate during 2007-11 could not be worked out. It, however, transpired that there was a highly irregular trend in CST realisation. While there was an increase of CST realisation by 1179 and 323 *per cent* during 2008-09 and 2009-10, there was a decrease of 84 and 42 *per cent* during 2007-08 and 2010-11 respectively, due to reduction in CST Rates.

Further, the Department did not maintain any record/ database to show the year-wise position of sales/stock transfer against Declaration forms 'C'/'F' to ascertain the revenue foregone on account of concessions/exemptions.

Audit findings

We reviewed the functioning of the Department of taxes relating to the system of assessment, levy and collection of tax on goods purchased from outside the state and goods sold to dealers outside the state and the concessions availed/allowed to the dealers. It revealed a number of system and compliance deficiencies which have been highlighted in the succeeding paragraphs.

4.6.9 System deficiencies

4.6.9.1 Printing/custody of Declaration forms and issue/accounting of forms by the Department/dealers

The Department had no mechanism in place for periodic review of the stock of forms held by it so as to ensure that old, obsolete, defective or unused forms were either destroyed after obtaining the approval of the competent authority or otherwise secured so as to obviate the possibility of their misuse. The Declaration forms were found issued to the zonal offices on the strength of the requisitions placed by the zonal officers.

No physical verification of statutory forms held by the Commissionerate was done during the period covered by audit except once on 23 September 2009 in respect of Form 'F'.

The Department paid a sum of ₹ 4.26 lakh during November 2009 to M/s Saraswaty Press Ltd., Kolkata for printing of 2000 books each of 'C' and 'F' Forms. All the 4000 printed books⁹ were received by the Department during the period from June to November 2010. During April 2007 to March 2010, 766 books of declaration 'C' forms were found issued to 10 zonal officers and dealers (zonal officers: 703 books and 10 leaves, dealers: 62 books and 14 leaves and M/s Saraswaty Press Ltd., Kolkata: 1 leaf as sample for printing). However, receipt and issue registers of Form 'C' for the period from 1 April 2007 to 19 March 2010 in respect of Zones- Headquarters, II, IV, VI to VIII and those for the period from 1 April 2007 to 7 June 2009 in respect of Zone IX could not be made available to us and hence, the status on issuance of Form 'C' during the period cited above could not be ascertained.

The following deficiencies were noticed in the course of issue and accounting of Declaration forms by the Department:

- though there is a system of obtaining the details of the Declaration forms, such system was not adopted in letter and spirit;
- there was no system of verifying the counterfoils of the statutory forms/utilisation statements thereof while scrutinising the returns;
- no system was also put in place to verify the genuineness of the Declaration forms received from the purchasing dealers from outside the State;
- in respect of a few dealers, forms were found issued only after the forms issued earlier were fully utilised and a statement to that effect was submitted to the tax authority. However, the correctness of the details like declaration form number and date, quantum of purchases made by the dealers, invoices *etc.* were not verified by the tax authority concerned;
- though 703 books and 10 leaves of form 'C' were issued during April 2007 to March 2010 to 10 zonal officers and one ST in Headquarters zone, the relevant stock and issue registers of 'C' forms in respect of these zones were not produced to us. The zonal officers of Zone- I, V and VI however, maintained receipt and issue registers of Form 'C' for the period from 20 March 2010 to 31 March 2010 and that of Zone-IX for the period from 8 June 2009 to 31 March 2010. These registers maintained were also not submitted to the competent authority at regular intervals. Further, no register was kept to watch dealer-wise account of forms issued and used by the dealers along with the details of fees paid for the forms. There was no provision in the forms issue register to record

⁹ One book contains 25 leaves of forms.

the utilisation of declaration forms to enable prima facie detection of suppression in turnover; and

- the forms were found issued by the registered dealers of the State to the registered dealers with whom they had transacted. However, the dealers were not accounting for the goods they had imported through use of Declaration forms thereby availing undue chances for evasion of tax as highlighted in paragraph 4.6.10.2.

The Department/Government may consider implementing in letter and spirit the system for calling of Declaration forms along with relevant documents before issuing fresh Declaration forms, scrutiny of returns filed and conducting tax audit. Early action may be initiated to upload the information regarding the details of the dealers and forms issued to them on the TINXSYS website promptly.

4.6.9.2 Utilisation of Declaration forms

The following lacunae were noticed in the utilisation of Declaration forms issued to the dealers by the tax authority :

- the Department had not made it mandatory for the dealers to furnish the Declaration forms while submitting the returns in the wake of implementation of MVAT Act;
- the assessing authorities had not been directed to assess the tax, interest and penalty in cases of non-submission of Declaration forms. The Department had also no guidelines prescribing check list of points to be seen prior to acceptance of Declaration forms;
- neither had the Department installed a system of verification of each and every Declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax nor was the TINXSYS website made operational;
- the assessing officers had no details of the branches of the dealers to verify the authenticity of the claims for exemption; and
- the Department had not installed any system of picking up a sample of Declaration forms and taking them up for further verification with the concerned States.

On a test-check of records maintained in zones I and V, we noticed that 10 (ten) dealers were issued 704 numbers of statutory forms ‘C’ during the year 2007-08 to 2009-10 but the utilisation statements of all the statutory forms issued earlier were not obtained by the Department.

Moreover, the dealers under the jurisdiction of eight zones used to file returns without a copy of the Declaration forms and hence, concealment of

the quantum of purchases made under the Declaration forms issued earlier and consequent evasion of tax and penalty could not be ruled out.

After we pointed this out, the Department stated (November 2011) that necessary orders had been issued to make it mandatory to furnish the utilisation statement of the form by the dealers.

4.6.9.3 Enforcement measures

The Department did not adopt any of the enforcement measures to establish the authenticity of Declaration forms as is evident from the following factual position:

- there was no system of blacklisting the dealers who had been found utilising invalid/fake Declaration forms in the past and circulation of the names of such dealers among various units and States. As such not a single dealer had been blacklisted in the State;
- no system was adopted to monitor such dealers to watch regularly any further mischief and to alert other States about such dealers to caution them;
- the Department had not maintained any data bank on forms declared invalid or dealers found to be fictitious or whose registration certificates were cancelled within and outside the State;
- the Department did not maintain any sample of the colour, design and format of the forms prevailing in different States for comparison in order to identify the fake or forged Declaration forms;
- cases of fake/ manipulated/ misused forms detected by the Department were not on records. Our cross verification of the Declaration forms obtained by the selling dealers of the State from the purchasing dealers of other States, however, revealed that one form was fake, six forms incorrect, four forms manipulated and twenty forms misused. Assessing officers had not exercised due diligence before accepting the Declaration forms during assessment; and
- no Intelligence Wing/Intelligence Bureau wing was constituted in the Department and hence, expected checks and balances to guard against concealment of the purchase and sales turnover was found to be absent.

4.6.9.4 Non-operation of TINXSYS

Tax Information Exchange System (TINXSYS) is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of Inter State transactions taking place among various States and Union Territories. TINXSYS will help the Commercial Tax Departments of various States and Union Territories to effectively monitor the Inter-State trade.

Apart from dealer verification Commercial Tax Department officials would use TINXSYS for verification of Central Statutory Forms issued by other State Commercial Tax Departments and submitted to them by the dealers in support of claim for concessions. TINXSYS will also provide Management Information System (MIS) and Business Intelligence Reports to the Commercial Tax Departments to monitor Inter State trade movements and will enable EC to monitor the trends in Inter State trade.

The Department of taxes, Manipur gave consent (September 2007) for the interconnectivity between TINXSYS and the State VAT computerisation system. The computerisation of Taxation Department was undertaken under the North East VAT computerisation project (NEVAT Project) with funding from the Government of India. The NEVAT project was targeted at creating computerised VAT administrations to enable streamlined implementation of State VAT and Goods and Service Tax (GST) in due course. Under NEVAT, a system called VAT and CST Management System (VCMS) consisting of 16 modules had been developed with the Tata Consultancy Service (TCS) as the service provider.

The project of computerization which started in April 2005 was stipulated for completion during March 2009. However, out of eleven VAT centres in the State six to eight centres remained inactive during 2008-10.

Thus, the project was yet to be fully implemented after completion of the project period and even after six years of introduction of MVAT in the State in July 2005. The stipulated date for the NEVAT project was extended to 31 March 2011 and only two modules namely e-registration and e-return had been completed and rolled out in Zones-I and II.

The TINXSYS data transfer statistics showed that the State was not doing well in capturing and uploading TINXSYS data. From January 2005 to December 2009, there was no transfer of data under various report heads¹⁰ of TINXSYS. Information in this regard for the period from January 2010 to March 2010 was not available. The information regarding dealers and Declaration forms issued to the dealers were not uploaded on the TINXSYS website promptly. The Department had not installed any system of either verification of each and every Declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax or cross verification of the purchase values shown in the utilisation statement/counterfoil of utilised 'C' forms issued to dealers with those in the database in the TINXSYS website while settling/finalising the tax returns.

Out of 16 modules¹¹ developed by the Department, only one module namely registration module was functioning online. Moreover, the Department could

¹⁰ 'C' form, 'C' form utilisation, 'F' form, 'F' form utilisation and periodic returns *etc.*

¹¹ Administration, Registration, Check post, Interoperability, Statutory forms, Case records, Notices & circulars, Field inquiry, Payment, Return, Assessment, Refund, Penalty, Vigilance, Appeal and Recovery

not catch the inputs in respect of the Inter State transaction as the TINXSYS.com remained non functional and inaccessible. The records maintained at the Check Gates at Jiribam and Moreh were not computerised. Further, no scheme for online issue of statutory forms had also been introduced and physical Declaration forms continued to be issued.

Thus, non-uploading of information like dealers' details, forms issued and utilisation thereof and non-operation of the website resulted in failure to catch purchase/sales turnover of dealers by the AAs thereby making returns filed/assessments finalised tainted with concealment of purchase/sales turnover and evasion of tax as highlighted in paragraphs on system and compliance deficiencies.

The Department stated (November 2011) that matter had been taken up with the Government of India and would be considered in the next meeting of the Empowered Committee of State Finance Ministers to be held on 3 March 2012.

The Government may expedite taking necessary steps to provide full access to the TINXSYS.com website.

4.6.9.5 Internal Audit

The White Paper on Value Added Tax envisaged the creation of an independent audit wing for checking a percentage of dealers' assessments. Internal audit is one of the most vital tools of internal control mechanism and functions as the 'eyes and ears' of the management and evaluating efficiencies and effectiveness of the mechanism. It also independently appraises whether the activities of the Department are being conducted efficiently and effectively.

We noticed that neither was the provision for creation of an audit wing embodied in the MVAT Act nor was any initiative taken up by the Department to install Internal Audit Wing (IAW) during the period covered by us. It was only during July 2011 that the Department made proposals to the Government for constitution of an IAW. The approval of the Government was, however, awaited. Absence of the IAW indicates that the Department was unaware of the deficiencies and other weaknesses that crept into the Department. The inadequacy in the internal control system of the Department is evident from the non constitution of the IAW and improper maintenance of records that prevented the Department to produce assessment records and statutory forms to us.

The Government may take early action to install the Internal Audit Wing to ensure strict compliance with the provisions of Acts and Rules by various wings/Zones of the Department and to prevent leakage of revenue.

4.6.10 Compliance deficiencies

4.6.10.1 Inter State Sales

4.6.10.1.1 Misutilisation of Declaration forms

As per the provisions of the CST Act and Rules made there under, Inter-State sales of goods covered by valid declaration in Form 'C' is taxable at a concessional rate of four *per cent* upto 2006-07, 3 *per cent* and 2 *per cent* with effect from April 2007 and June 2008 respectively. A dealer who claims concessional rate of tax is required to obtain the declaration in Form 'C' from the purchasing dealer and produce it before the Assessing Authority(AA) within the period of three months from the end of relevant quarter ending failing which tax is leviable, in respect of goods other than declared goods, at the rate of ten *per cent* or at the rate applicable to the sales or purchases of such goods within the State, whichever is higher for the period up to 2006-07 and at the rate applicable to the sales or purchases of such goods within the State.

On test-check of the assessment records maintained in the ST, Moreh Check Post within the jurisdiction of Zone-VIII, we noticed that five dealers¹² who dealt in betel nuts/*supari* were assessed (January 2008 to June 2009) for the quarters ending from June 2005 to March 2008 under Section 9 of CST Act by accepting 76 Declarations in 'C' forms. Our cross verification of these forms with the Sales Tax authorities of Delhi, Maharashtra and West Bengal revealed that out of 76 forms, one form was fake as was not issued by Sales Tax authority, Maharashtra; six forms projected as

issued by the Sales Tax authority, Delhi were incorrect; twenty forms were issued by the Sales Tax authorities of Delhi and West Bengal to eleven dealers other than the corresponding purchasing dealers (Delhi-19; West Bengal-1). The assessing authorities irregularly allowed concessional rates of tax on such forms. The tax recoverable in these transactions having taxable turnover of ₹ 3.84 crore was ₹ 8.81 lakh. Moreover, penalty of ₹ 17.61 lakh was also leviable.

¹² M/s G.L. Pawar (TIN-14710100116 and CST/M/139), M/s Premela Trading (TIN 14710070100 and CST/M-188), M/s Hiralal Jaiswal (CST no.-14011010204), M/s Manoj Kumar Gupta (TIN-14710097183) and M/s Roshni Enterprises (TIN-14710077177)

4.6.10.1.2 Evasion of tax by inflating the sales figures

On scrutiny of records maintained in Zone VIII, we noticed that the ST, Moreh Check Post completed (January 2009) the assessment of one dealer¹³ for the quarters ending December 2008 by accepting two declarations in 'C' form without exercising any cross verification of the forms to ascertain the genuineness thereof. The result of our cross verification with Sales Tax authority, West Bengal, disclosed that the sales value of goods supported by one Declaration form amounting to ₹ 5.77 lakh were inflated by ₹ 10 lakh. The tax evaded worked out to ₹ 0.16 lakh. Besides, penalty of ₹ 0.31 lakh was also leviable.

4.6.10.1.3 Irregular grant of concession/exemption on filing of Declaration forms beyond the stipulated period

As per provision of the Central Sales Tax (CST) Act, 1956 and the Rules framed thereunder, a dealer can claim concessional rate of tax in case of Inter-State sales of goods by furnishing Declaration form 'C' to the prescribed authority within three months after the end of the period to which the declaration relates, failing which he is liable to pay tax, in respect of goods other than declared goods, at the rate of 10 *per cent* or at the rate applicable to the sales or purchase of such goods within the State whichever is higher (up to 2006-07) and at the rate applicable to the sales and purchases of such goods within the State from April 2007 onwards.

Our test-check of records maintained in Zone I and Taxation Check Post, Moreh revealed that the AAs, while finalising the assessments (May 2007 to June 2009) of seven dealers¹⁴ on a taxable turnover of ₹ 13.61 crore for the quarters ending from June 2005 to September 2008, allowed concessional rate of tax by accepting 128 'C' Declaration forms. Our scrutiny of the forms, however, revealed that 80 forms were found to have been filed late in as much as

these were submitted beyond the stipulated period of three months from the end of the relevant quarter endings. No further time had been allowed to the dealers by for submission of the forms beyond the stipulated date *i.e.* irregular claims allowed resulted in short levy of tax of ₹ 30.98 lakh.

¹³ M/s G.L. Pawar (TIN-14710100116), a dealer in betel nut *etc.*

¹⁴ M/s Mangalam Woods Industries (TIN-14110225238-dealer in plywood items), M/s Premela Trading (TIN 14710070100 and CST/M-188), M/s Ajay Traders (TIN-14700768187 and CST/M/272), M/s Hiralal Jaiswal (CST no.-14011010204), M/s Manoj Kumar Gupta (TIN-14710097183), M/s Roshni Enterprises (TIN-14710077177) and M/s G L Pawar (TIN-14710100116)-dealers in betel nuts *etc.*

After we pointed this out, the Superintendent of Taxes, Check Post, Moreh, while accepting our observations issued (28 December 2011) demand notices to six dealers¹⁵ to deposit tax and penalty amounting to ₹ 32.52 lakh within 45 days from the date of issuance of the notice.

The Government may consider installing a mechanism to ensure that the cross verification of Declaration forms is done by the AAs concerned. A periodic return to monitor the progress made from time to time in cross verification of Declaration forms and maintenance of records at Commissioner of Taxes’ level may be prescribed for all the AAs. Besides, norms for carrying out verification of the Declaration forms may be prescribed for the AAs.

4.6.10.2 Intra-State transactions

4.6.10.2.1 Suppression/non-accountal of Inter-State purchases

As per section 39 of the MVAT Act, where after a dealer is assessed under section 34 (3) for any year or part thereof, if the Commissioner has reasons to believe that the whole or any part of the turnover in respect of any period has escaped assessment or been under-assessed, he may proceed to assess to the best of his judgment, the tax due in respect of such turnover. Section 36 (7) provides *inter alia*, that if the dealer, in order to evade/avoid payment of tax, has furnished incomplete and incorrect return for any period, the Commissioner shall direct that the dealer shall pay, by way of penalty, a sum equal to twice the amount of additional tax assessed. Further, as per section 28 of MVAT Act read with Rule 24 of MVAT Rules, all registered dealers with a turnover exceeding ₹ 10 lakh are required to submit returns within twenty days from the close of the month of the year.

On scrutiny of records maintained in Taxation Zones- headquarters, I, III, and V, we noticed that the AAs finalised (March 2006-March 2010) the assessments of eight dealers¹⁶ under section 34 (3) of the Act *ibid* for the periods ending from December 2005 to December 2009 taking into account the purchase turnover of ₹ 92.52 lakh as returned by the dealers whereas our scrutiny of the purchase turnover, as depicted in the relevant counterfoils of ‘C’ Declaration forms/ utilisation statements, revealed that the actual purchase turnover was of ₹ 11.32 crore which was not detected by the AAs at the time of assessment. This led to suppression of inter State purchases and consequent sales turnover of ₹ 10.40 crore which involved evasion of VAT of

¹⁵ M/S G.L. Pawar (TIN-14710100116):₹ 10.59 lakh, M/S Premela Trading (TIN-14710261275): ₹ 13.32 lakh, M/s Hiralal Jaiswal (TIN-14011010204): ₹ 1.69 lakh, M/s Manoj Kumar Gupta (TIN-14710097083):₹ 1.30 lakh, M/S Roshni Enterprises (RC no.-M/TIN 261):₹ 3.38 lakh and M/s Ajay Traders (TIN-14710078187):₹ 2.24 lakh

¹⁶ M/S Manipur Diesels (TIN 14010277145), M/S DK Steels (TIN 14110098128), M/S Treepty Enterprises (TIN 14310164264), M/s RJ Enterprises(TIN 14010079193), M/S Aadinath Traders (TIN 14110005768), M/S Jain Medicos (TIN 14110205232), M/S Navjivan Aushdhalay (TIN 14510106122), M/S Truss Enterprises (TIN 14510345285)

₹ 86.02 lakh. Penalty to the extent of ₹ 1.72 crore for filing of incorrect returns was also leviable under section 36(7).

After we pointed this out, the Commissioner of Taxes, while accepting the audit observation, issued (September 2011) demand notices to two dealers¹⁷ to pay tax and penalty to the extent of ₹ 2.10 crore.

Further, we noticed that ten¹⁸ dealers under the jurisdiction of the Superintendent of Taxes, CSD filed tax returns depicting purchase turnover to the tune of ₹ 10.06 crore for the quarters from December 2005 to March 2010 whereas our cross verification of the records like counterfoils of statutory 'C' forms/ utilisation statements thereof revealed that the dealers had imported various goods valued at ₹ 11.77 crore during the period in question. This resulted in suppression of purchase turnover of ₹ 1.71 crore involving tax of ₹ 6.83 lakh. Besides, penalty was leviable after verification.

4.6.10.3 Branch Transfers

Under the CST Act, where the dealer claims that he is not liable to pay tax under the Act in respect of any goods on the ground that the movement of such goods from one State to another was occasioned by reason of transfer of title by him to any other places of his business and not by reason of sale, such claim is admissible subject to submission of original portion of the declaration in 'F' form along with the proof of despatch to the AA within three months after the end of the period to which the declaration relates. If the dealer fails to furnish the declaration, then the movement of such goods shall be deemed to have been occasioned as a result of sale.

Our scrutiny of records maintained in Zone-I, Imphal we noticed that in respect of a dealer¹⁹, the AA made assessment (July 2008 and January 2009) allowing exemption of tax on ply wood (rate of tax: 12.5 *per cent*) valued at ₹ 30.92 lakh on the ground of stock transfer to a place²⁰ outside the State during the period ending March and June 2008 despite the fact that such stock transfer was not supported by declaration

in form 'F' and proof of despatch. In absence of documentary evidence for despatch of the goods, the transactions should have been treated as local sales

¹⁷ M/s Manipur Diesel(TIN-14010277145)-₹ 209.62 lakh and M/s RJ Enterprises (TIN-14010079193-₹ 0.75 lakh

¹⁸ Unit run Canteens-183 Military Hospital (TIN 14010150136), 22 Assam Rifles (TIN 14010057176), 302 Coy ASC (Sup)(TIN 14010067280), 6 Assam Rifles (TIN 14010805288), HQ-765 BRTF (TIN 14011618169), HQ Senapati Range, Assam Rifles (TIN 14710027162), 57Mountain Division, Signal Regiment (TIN 14010258149), HQ Manipur Range, Assam Rifles (TIN 14010005242), Ist Assam Rifles (TIN 14510122185) and 43 Assam Rifles (TIN 14011588148).

¹⁹ M/s Mangalam Woods Industries Pvt. Ltd. (TIN 14110225238), a dealer in plywood items

²⁰ Guwahati, Assam

taxable at 10 or 12.5 *per cent* whichever is higher. Hence the dealer was liable to pay tax of ₹ 3.87 lakh as detailed in the following table:

(₹ in lakh)					
Quarter ending	Date of assessment	Gross turnover of sales	Value of stock transfer not supported by form 'F'	Rate of tax (<i>per cent</i>)	Tax leviable on stock transfer
March 2008	18-7-08	46.02	22.24	12.5	2.78
June-08	15-1-09	15.72	8.68	12.5	1.09
Total		61.74	30.92		3.87

Besides, penalty was leviable.

The Department in its reply (November 2011) accepted the audit finding.

4.6.11 Non-production of records

The Department failed to produce to us the assessment records including 144 number of statutory 'C' and 'F' forms in respect of 39 dealers despite requisitions placed in writing. The Government of Manipur, Finance Department was apprised of the factual position of non production of records during June 2011. The matter was further taken up with the Commissioner (Finance), the Government of Manipur and Commissioner of Taxes. However, the position remained the same. 144 numbers of statutory forms could not be verified due to non production of records. The Department stated (November 2011) that non-production of the records was due to non-availability and misplacement of records.

4.6.12 Conclusion

The Performance Audit revealed several deficiencies in observance of the system as well as non-compliance of the CST Act and the Rules and the MVAT Act. The Department had no mechanism in place for periodic review of the stock of forms held by it so as to ensure that old, obsolete, defective or unused forms were either destroyed after obtaining the approval of the competent authority or otherwise secured so as to obviate the possibility of their misuse. The Department did not adopt enforcement measures like blacklisting of the dealers who had been found utilising invalid/fake Declaration forms in the past. The information regarding dealers and Declaration forms issued to the dealers were not uploaded on the TINXSYS website promptly. The Department had not installed any system of verification of each and every Declaration form submitted by the dealers with the database available in the TINXSYS website. The website remained non-functional and statutory forms were not issued online. The Declaration forms furnished by the dealers were not effectively scrutinised by the AAs. No system was put in place to facilitate the cross verification of the Declaration forms to establish the genuineness thereof from the records of AAs of other States thereby allowing exemption/concession on fake, incorrect, misused,

manipulated and Declaration forms submitted beyond stipulated time during assessments. The assessments were also made without taking into account the actual quantum of goods purchased which involved under assessment/ short levy/and evasion of tax. Stock transfers not supported by 'F' Declaration forms also involved evasion of tax.

4.6.13 Recommendations

The Government of Manipur may consider the following steps to enhance the effectiveness of the machinery for concession and exemption in Inter State sales, branch transfer and transparency in assessment in respect of intra state transactions:

- installing a mechanism to ensure that cross verification of Declaration forms is done diligently by the AAs concerned before accepting the Declaration Forms;
- prescribing a periodic return to monitor the progress made from time to time in cross verification of the Declaration form at the Commissioner of Taxes' level;
- uploading dealers' details, forms issued and utilisation thereof in the TINXSYS. com website for a transparent assessment and as an aid to assessment of State offices as well as other States. Necessary steps may be taken to provide full access to the modules developed and the TINXSYS website;
- putting in place a system to maintain records to watch the receipt of Declaration forms from outside the State and dispatch of Declaration forms to other States; and
- taking early action to install internal audit wing to ensure strict compliance with the provisions of the Act and the Rules by the Assessing/Departmental officers.

TRANSPORT DEPARTMENT

4.7 Performance Audit on “Computerisation in the Motor Vehicle Department”

Highlights

Though computerisation programme of VAHAN and SARATHI for registration of vehicles/driving licenses started in six of the eight DTOs in December 2003 and got completed in January 2011 after delays ranging from 12 to 41 months, commercial transport vehicles were not registered in VAHAN and neither was Enforcement Module implemented.

(Paragraphs 4.7.7 and 4.7.9)

Out of a total of 1,06,752 vehicles registered prior to implementation of ‘VAHAN’ software in the DTOs, backlog legacy data entry in respect of 78,000 vehicles *i.e.* 73 per cent, had been completed. Thus, the State Register and National Register were incomplete to that extent.

(Paragraph 4.7.10)

Two different registration numbers were assigned to 43 vehicles, having same chassis numbers, by different DTOs.

(Paragraph 4.7.12)

Mandatory fields like address, father’s name and engine number *etc.* were not captured in VAHAN in absence of validation controls in the software by allowing entry of incomplete records. No sale amount was entered in respect of 1215 personalised four wheeler vehicles purchased after 31 March 2011, resulting in manual collection of tax.

(Paragraph 4.7.15)

Insurance details were not entered in respect of vehicles. Absence of a valid insurance certificate/cover note number in relevant field of the software could lead to a possibility of vehicles getting registered without payment of insurance.

(Paragraph 4.7.17)

Except Imhal district, the remaining DTOs had not issued all driving licences through Smart Card. The practice of issuing driving licences partly through Smart Card and partly manually defeated the objective of introducing ‘SARATHI’ software.

(Paragraph 4.7.20)

The New National Permit System was implemented after a delay of almost a year.

(Paragraph 4.7.22)

Hand Held Terminals (HHTs), essential for checking the Smart Cards, had not been purchased by MANITRON²¹ as per the terms of the contract. Consequently the Department cannot verify the authenticity of Smart Cards possessed by the vehicle owners in absence of HHTs.

(Paragraph 4.7.23)

Out of 26,494 registration certificates issued till September 2011, Smart Card registration certificates were issued in 22,285 cases. Thus, paper based registration certificates continued to be issued by the DTOs.

(Paragraph 4.7.24)

4.7.1 Introduction

The Transport Department, one of the major revenue earning Departments in the State of Manipur, is responsible for exercising control over the work of registration and regularisation of the vehicles which ply in the State, grant of permits to transport vehicles, levy and collection of taxes, fee and penalties, issue of driving and conductors' licence and certificates of fitness to transport vehicles.

The Ministry of Road Transport and Highways, Government of India had embarked upon a scheme for creation of a National Database network by introduction of Information Technology in the Road Transport Departments. Thus, the Central Government has been encouraging the States to work on standardised application formats and to undertake computerisation of backend processing, based on such standardised formats and inter operatable software, so that the Registration Certificates/National Permits/driving licences are readable throughout the country. For this, the National Informatics Centre (NIC) designed two software viz. (1) VAHAN for registration, assessment of taxes/fee and fitness of the vehicles and (2) SARATHI for issue/renewal of the driving licence. The software was made operational in six²² of the eight²³ District Transport Offices (DTOs) in the State in January 2011.

4.7.2 Organisational set up

The Transport Department is headed by the Principal Secretary (Transport), who is assisted by the Director (Transport). The Director in turn is assisted by two Deputy Directors (Administration and Planning). The Deputy Director (Administration) controls the District Transport Officers of the State. The activities for computerisation of the Department are executed by the Chief Information Technology Officer (CITO) under Deputy Director (Planning), in consultation with NIC, Manipur.

²¹ Manipur Electronics Development Corporation Ltd.

²² DTO : Imphal West, Imphal East, Thoubal, Churacanpur, Bishnupur, Kangpokpi

²³ DTO : Imphal West, Imphal East, Thoubal, Churacanpur, Bishnupur, Kangpokpi, Ukhrul, Senapati

4.7.3 Audit Objectives

The Performance Audit was conducted with a view to assess whether:

- the overall objectives of computerisation through the NIC developed computer applications of ‘VAHAN’ and ‘SARATHI’ were achieved;
- the computerised systems implemented were complete and the data captured were accurate and comprehensive;
- the software adequately addressed the business needs and ensure the correctness of the realisation of tax and additional tax *etc*;
- connectivity was established between the DTOs in the State;
- the computerised National Permit System (NPS) was implemented as planned for and project objectives were achieved;
- there were sufficient validation checks in the software; and
- internal control mechanism was in place at the State level to monitor the implementation of the projects.

4.7.4 Audit Criteria

We referred to the following Acts and Rules for the Performance Audit:

- The Motor Vehicles Act, 1988;
- The Central Motor Vehicles Rules, 1989;
- Manipur Motor Vehicle Taxation Act, 1998;
- Manipur Passengers and Goods Taxation Rules, 1979 and
- Departmental Manuals/Notifications.

4.7.5 Scope and methodology of audit

The Performance Audit was conducted between July 2011 and October 2011 through test-check of the application software of five²⁴ out of eight DTOs and office of the Transport Director for the period since the software was implemented in these units till August 2011, except for DTO, Imphal West for which the analysis was done for the period from June 2009, as an IT audit of DTO Imphal West for the period till May 2009 was already conducted and featured in the Audit Report 2008-09.

The audit methodology included holding of Entry Conference (July 2011) with the Principal Secretary (Transport) and other Departmental officers, issue of questionnaires, scrutiny of records and analysis of data pertaining to ‘VAHAN’ and ‘SARATHI’. Audit findings were discussed with the Departmental officers in an Exit Conference (November 2011) and their views wherever available have been incorporated in the Performance Audit.

²⁴ DTOs: Imphal West, Imphal East, Thoubal, Churachandpur and Bishnupur

4.7.6 Acknowledgement

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

Audit findings

4.7.7 Status of Computerisation in the State

There are eight DTOs in the State and the Computerisation of six of these DTOs was started with the implementation of 'VAHAN' in DTO, Imphal West on pilot basis in the year 2003. NIC was entrusted with the responsibility of supply, installation and implementation of the application software—'VAHAN' and 'SARATHI'. A State Govt. Undertaking namely Manipur Electronics Development Corporation Ltd. (MANITRON) was entrusted with the work of making Smart Card Driving License and Smart Card Registration Certificate. The work of computerisation completed in six of the eight DTOs in the State in January 2011. The details of installation of the application software 'VAHAN' and 'SARATHI' and its actual utilisation in the DTOs are given in the following table:

Name of the DTOs	VAHAN			SARATHI		
	Date of Installation	Date of utilisation	Delay in utilisation	Date of Installation	Date of utilisation	Delay in utilisation
Imphal West	Dec 2003	Dec 2003	Nil	Nov 2006	Nov 2008	23 months
Imphal East	Sep 2006	Oct 2007	12 months	Oct 2006	Nov 2009	36 months
Thoubal	July 2007	Jan 2011	41 months	July 2007	Jan 2011	41 months
Churachandpur	Aug 2007	Nov 2009	26 months	Aug 2007	Nov 2009	26Months
Bishnupur	Sept 2007	Nov 2010	37 months	Aug 2007	Nov 2010	38 months
Kangpokpi	Oct 2007	Aug 2009	21 months	Oct 2007	Nov 2009	21 months

Thus, it would be seen from the above table, that there was delay in utilisation of the 'VAHAN' and 'SARATHI' software ranging from 12 to 41 months.

Our audit scrutiny revealed that no IT Strategic Plan/Policy and planning were in place.

The Department in their reply (November 2011) while accepting the audit observation stated that an IT Plan would be formulated in consultation with the Department of Information Technology, Government of Manipur and NIC, Manipur.

We recommend that the Department may formulate an IT Plan which would provide necessary direction for its proper and timely implementation.

4.7.8 Training of staff

Any IT system though initially developed/ implemented through outsourcing has to be invariably taken over by the Department eventually, by developing expertise within the Department. The number of personnel trained in ‘VAHAN’ and ‘SARATHI’ are as shown in the following table:

Name of DTO	Number of personnel	Year in which training imparted.
Imphal west	21	Nov-Dec 2003
Imphal east	3	2005
Thoubal	2	2005
Churachandpur	2	2006
Bishnupur	2	2006
Kangpokpi	2	2006

Though the employees of the Department handle data entry at the Departmental counters, yet the database administration is being done with the help of NIC, Manipur. Moreover, the work of making Smart Card Driving License and Smart Card Registration Certificate was outsourced to MANITRON. In spite of the importance of the data and data confidentiality, the Department could not develop technical expertise within the Department.

We recommend that the Department may take necessary steps to develop technical expertise within the Department.

4.7.9 Partial utilisation of ‘VAHAN’

‘VAHAN’ software has modules for registration/ renewal of vehicles, taxation, fitness and enforcement. However, all the modules were not utilised in any of the DTOs.

In the five DTOs²⁵, registration was computerised only in respect of light motor vehicles, three and two wheelers. Registration, taxation, permit and its validity relating to commercial and heavy transport vehicles and enforcement were not computerised.

The Department in their reply (November 2011) while accepting the audit observation stated that all necessary steps would be taken for early implementation of all the available modules in ‘VAHAN’.

We recommend that the Department may take necessary steps for early implementation of all the modules to achieve the objectives of computerisation fully.

4.7.10 Maintenance of State/National Register

The computerised database for each DTO is uploaded regularly at the Central Server at NIC, Manipur by the NIC Officials, in State Register. Further, the database is also uploaded regularly to the National Register. As for data entry

²⁵ Imphal West, Imphal East, Bishnupur, Thoubal and Churachandpur.

of backlog legacy data, out of a total of 1,06,752 vehicles registered prior to implementation of 'VAHAN' software in the DTOs data entry in respect of 78,000 vehicles *i.e.* 73 per cent, had been completed. The Director (Transport) stated that the work of data entry of backlog legacy data had been outsourced to MANITRON and was targeted to be completed by 2012.

We recommend that the Department may ensure that backlog data entry is completed in time so as to make the State Register and National Register complete.

Data Accuracy

4.7.11 Duplication of Records

Chassis numbers and engine numbers are unique identification mark of a vehicle which are essential for its registration. Moreover, registration number is the identification of a vehicle. Rule 48 of CMV Rules, 1989 provides that on receipt of an application under Rule 47 and after verification of the documents furnished therewith, the registering authority shall subject to provision of Section 44 of the MV Act, 1988 issue to the owner of the motor vehicle a certificate of registration on Form 23.

Analysis of database of the five DTOs (*VT_Owner*²⁶) revealed that out of 22620 vehicles registered at Imphal West *w.e.f.* 9 June 2009, there were 20 sets of repeated engine numbers involving 43 vehicles. Moreover, the vehicles with same engine number had the same maker and model.

The Department in their reply (November 2011)

while accepting the audit observation stated that discrepancy occurred due to non-availability of sufficient number of digits in the engine number field in VAHAN, to capture the complete/full engine number. However, presently VAHAN has been modified to accommodate the full engine number and necessary rectifications as pointed out by audit have been made.

The reply of the Department is not correct as there were cases of repeated engine numbers although their length was small.

4.7.12 Different registration numbers assigned to vehicles having same chassis number

Analysis of *VT_OWNER* Table of "VAHAN" database of the five DTOs revealed that two different registration numbers were assigned to the same chassis number in 43 cases *viz.* 86 registration numbers by different DTOs. Further, verification with the National Register confirmed the existence of the above mentioned cases.

²⁶ *VT_OWNER*: Table containing details of the vehicle owners

As no vehicle can be assigned more than one registration number at a given point of time, the concerned DTOs should have exercised all necessary checks before issue of the registration numbers. This shows lack of adequate validation checks by the Department to ensure that only one unique registration number is assigned to a vehicle.

We recommend that the Department may put in place a system to ensure that registration is allowed after proper verification by the concerned DTO and that the vehicle has not been registered at any other DTO.

4.7.13 Vehicles with lapsed registration

As per section 41(7) of the Motor Vehicles Act, 1988 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.

Further, as per rule 52 of the CMV Rules 1989, 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 databases of the five DTOs²⁷ revealed that as on 31 August 2011, registration certificates in respect of 2229 vehicles had expired.

Neither had the registration certificate of the vehicles been renewed nor did they surrender their registration certificate. As such, maximum fine of ₹ 2.23 lakh for non-renewal of registration of the vehicle was realisable.

The Department in their reply (November 2011) while accepting the audit observation stated that necessary fees and fines are now collected from

vehicles with lapsed registration as and when they approach for duplicate registration certificate, transfer of ownership *etc.*, however, in some case even though necessary fees were collected timely the Department could not enter in time due to erratic power supply.

We recommend that the Department may put in place a system to regularly generate reports on vehicles with expired registration for necessary monitoring and timely collection of revenue.

²⁷ Imphal West, Imphal East, Thoubal, Bishnupur and Churachandpur

4.7.14 Vehicles with registration validity of more than 15 years

As per Section 41(7) of the Motor Vehicles Act, 1988 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 databases of the five DTOs²⁸ revealed that out of 33,558 vehicles registered, 23 vehicles (*Imphal East-2, Imphal West-21*) the validity of the certificate

of registration was more than 15 years .

The Department in their reply (November 2011) while accepting the audit observation stated that the discrepancy occurred due to wrong adoption of tax mode as 'yearly' instead of 'one time' and edition of data in some cases. It also stated that necessary steps would be taken for early rectification.

4.7.15 Partial capture of database

As per Rule 47 of CMV Rules 1989, Form 20 has been prescribed for registration of vehicles which contains information of vehicles in 34 fields. The *VAHAN* package provides for capture of all the information. Further, as per the notification no. 2/42/2010-LEG/L dated 31 March 2011 issued by the Government of Manipur, Secretariat Law and Legislative Affairs Department under first schedule section 3(1) Part-A, one time tax on personalised four wheeler vehicles shall be levied as a specified percentage on the original cost price.

Analysis of database *VT_OWNER* of the five DTOs²⁹, however, revealed that data captured was incomplete since mandatory fields like address, father's name, and engine number *etc.* which shows lack of validation control in the '*VAHAN*' software by allowing entry of incomplete records, thus defeating the objective of computerisation.

Analysis of database of the five DTOs, however revealed that no sale amount was entered in respect of 1215 personalised four wheeler vehicles purchased after 31 March 2011, thereby manually calculating and collecting the tax. Moreover, even after a lapse of five months (August 2011) of the notification, the Transport Department has not yet formally communicated the NIC, Manipur to make necessary modifications in "*VAHAN*" software.

This shows lack of necessary involvement of senior management in the proper and timely implementation of the computerisation project.

The Department in their reply (November 2011) while accepting the audit observation stated that *VAHAN* software has been modified by NIC, Manipur

²⁸ Imphal West, Imphal East, Thoubal, Bishnupur and Churachandpur

²⁹ Imphal West, Imphal East, Thoubal, Bishnupur and Churachandpur

by incorporating the new tax structure which is presently being tested at DTO, Imphal West.

We recommend that the Department may take steps to strengthen ‘VAHAN’ software so as not to allow registration with incomplete information/data. Further, the Department needs to incorporate changes in Act/Rules without undue delay.

4.7.16 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 an adverse impact on the tax assessment.

In spite of having pointed out entry of incorrect seating capacity in the report for the year ended 31 March 2009, corrective action to strengthen the software has not been initiated till date. Analysis of the database of the four DTOs³⁰ revealed that the seating capacity in 196 cases has been incorrectly entered, as shown in the following table. This shows lack of validation control and necessary involvement of Senior Management.

Sl. No.	DTO	No. of incorrect cases	Range of seating capacity
1	Imphal West	125	22-840
2	Imphal East	36	0-800
3	Churachandpur	31	0-416
4	Bishnupur	4	0-111
	Total cases	196	

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 fully computerised application *viz.* permit *etc.*

The Department in their reply (November 2011) while accepting the audit observation stated that necessary steps shall be taken for automatic generation of seating capacity on the basis of maker model or any other field found fit.

We recommend that the Department may incorporate changes in the ‘VAHAN’ software to automatically generate the seating capacity on entering the maker model or any other field found fit.

³⁰ Imphal West, Imphal East, Churachandpur and Thoubal

4.7.17 Registration of vehicles without insurance cover note

As per Section 146 of the Motor Vehicle Act, 1988, 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.

In spite of having pointed out in the Audit Report for the year ended 31 March 2009, necessary steps were not taken up to validate the checks in the system to ensure that a valid insurance certificate/ cover note was in place at the time of registration of a vehicle as analysis (VT_OWNER joined

with VT_VEHINS³¹) of the database of the five DTOs revealed that out of 37,558 records, 31,602 vehicles had registered without insurance cover note as shown in the following table:

Particular	Imphal west	Bishnupur	Thoubal	Imphal East	Churachandpur	Total
Vehicles without insurance cover note	21326	709	2593	4780	2194	31602
Total number of vehicles	22620	726	2681	5104	2427	37558

Absence of a valid insurance certificate/cover note number in relevant field of the software could lead to a possibility of vehicles getting registered without insurance cover.

The Department in their reply (November 2011) while accepting the audit observation stated that as VAHAN software has necessary features for entering insurance details, necessary steps shall be taken to register new vehicles only with valid insurance cover note.

We recommend that the Department may ensure that applications for new registrations be processed on production of a valid insurance cover note.

4.7.18 Lack of continuity of registration numbers

In a single series, 9999 vehicles can be awarded registration numbers. These numbers should be awarded in a sequence to monitor the year of registration of the vehicle.

In spite of having pointed out in the Audit Report for the year ended 31 March 2009, necessary checks were not in place to ensure that registration numbers were issued serially and after completion of an ongoing series, as analysis of the database of the five DTOs revealed that registration in an ongoing series

³¹ VT_VEHINS:- Table containing insurance details of vehicles.

were not issued chronologically in fourteen series of five DTOs. This practice apart from indicating improper management of vehicle registration also gives rise to the possibility of misuse of unused numbers.

The Department in their reply (November 2011) stated that provision has been made for issue of choice number as per Manipur Motor Vehicles Taxation (Amendment) Act, 2011.

The reply of the Department is not acceptable as the observation relates to the registration cases before enactment of the Manipur Motor Vehicles Taxation (Amendment) Act, 2011.

We recommend that the Department may ensure that registration numbers are issued serially and only after completion of an ongoing series.

4.7.19 Non-entry of tax payment

As per Section 5 of the MMVT 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 database of the five DTOs revealed that out of 33,558 vehicles, the tax amount was left blank in respect of 193 vehicles

registered after the implementation of computerisation in the DTOs. This shows lack of validation control in the system to ensure that the data relating to all the mandatory fields are entered. Acceptance of blank field in respect of a mandatory field (tax) by the system in the case of new registration needs a detailed examination as it may give rise to the risk of evasion of tax.

The Department in their reply (November 2011) stated that the aforesaid irregularity occurred while entering backlog data or transferred vehicles and necessary steps shall be taken to avoid such irregularities in future.

The reply of the Department is not relevant and hence not acceptable.

We recommend that the Department may strengthen the validation check in 'VAHAN' software to ensure that incomplete/blank information is not accepted for mandatory fields.

4.7.20 SARATHI'

After the implementation of 'SARATHI', only DTO Imphal West and East have issued all driving licenses through Smart Card as shown in the following table:

DTO	Year of implementation	“SARATHI” (total issued till the date of Audit August-September 2011)		
		Smart card	Manual	Total
Imphal West	December 2003	14246	Nil	14246
Imphal East	November 2007	408	Nil	408
Thoubal	January 2011	1083	706	1789
Churachandpur	November 2009	238	692	930
Bishnupur	January 2011	300	50	350
Kangpokpi	November 2009	33	12	45
	Total	16308	1460	17768

The remaining DTOs have not issued all driving licenses through Smart Card even though the Smart Card System had already been implemented. The practice of issuing driving licenses partly through Smart Card and partly manually defeats the objective of introducing “SARATHI”.

The Department in their reply (November 2011) while accepting the audit observation stated that other DTOs could not issue all driving licenses in Smart Card due to erratic power supply and non-availability of fuel for generator sets.

Data Security

4.7.21 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 in succeeding paragraphs.

4.7.21.1 Change Management Procedure

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

4.7.21.2 Logical Access Control

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

- Users have the access only when 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 no documented password policy specifying the need to change the password periodically was framed and circulated. There was no restriction of log in attempts to prevent access by unauthorised access, amendments or deletion and consequent losses. As such the system was exposed to the risk of unauthorised access, amendments or deletion and consequent losses.

4.7.21.3 Environmental controls/ Physical Access Control

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 risk assessment and preventive measures be undertaken prior to implementation of the project.

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

4.7.21.4 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.

Our scrutiny of the vehicle registration system revealed that the Department had no methodology of backing-up data. The Department and NIC stated that, 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. The NIC further stated that the data was being regularly updated in the National Register after necessary checks.

4.7.21.5 Lack of security policy

In view of the inadequacy of the controls pointed out above, it is important to put in place security practice 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.

4.7.21.6 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 was no monitoring of data entry as has been evidenced by large number of incomplete, incorrect/improbable data and cases of issue of different registration numbers to vehicles with same chassis number by different DTOs.

New National Permit System (NPS)

4.7.22 Delay in implementation

The Ministry of Road Transport and Highways, Government of India vide their letter no. F.No.RT-16031/3/2009-T (May 2010) communicated to the Principal Secretary (Transport)/ Transport Commissioners of all the states and Union Territories that the new NPS shall be effective from 8 May 2010. The new NPS provides for levy of ₹ 1,000 for Home State Authorisation and ₹ 15,000 consolidated fee per annum per vehicle for National permit.

Our audit scrutiny revealed that the Transport Department, Government of Manipur started implementing the NPS w.e.f. 19 April 2011, after a delay of 346 days, resulting in an estimated short collection of revenue amounting to ₹ 18.37 lakh as shown in the following table:

No. of permits issued during May' 10 and April' 2011	Permit fee realisable as per new NPS (in ₹)	Permit fee realised in the old NPS (in ₹)	Short collection (in ₹)	Fee realisable for Home State Permit in the new system (in ₹)	Actual realisation as per the old system (in ₹)	Short collection (in ₹)
260	39,00,000	21,93,000	17,07,000	2,60,000	1,30,000	1,30,000

The Department in their reply (November 2011) stated that the delay in implementation of the new NPS was due to the time taken in getting cabinet approval of the same and there was no revenue loss due to the delay as the State was receiving revenue from other States on pro rata basis under the new scheme.

This is indicative of poor planning for implementation of the scheme and the Department should have taken prompt necessary action for timely implementation of the schemes/projects of national relevance.

Other Implementation Issues

4.7.23 Non-fulfillment of terms of contract

As per Clause 4 of the contract agreement between the Government of Manipur represented by the then Commissioner of Transport and Manipur Electronics Development Corporation Ltd. (MANITRON) on 15 April 2008 on the implementation of Smart Card, MANITRON was to provide all the required additional 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 (HHTs), essential for checking the Smart Cards. Test-check, however, revealed that HHTs had not been procured till date.

The Department in their reply (November 2011) while accepting the audit observation stated that as the memory of the Smart Card is being upgraded to 64 Kb shortly, the HHTs will become obsolete in the near future.

The reply of the Department is not acceptable as the Department cannot verify the authenticity of Smart Cards possessed by the vehicle owners in the absence of HHTs.

We recommend that the Department may pursue *MANITRON* for early procurement of the HHTs and incorporate penal clauses for non-fulfillment/ violation/ breach of the terms of agreement in future contracts.

4.7.24 Partial implementation of Smart Card

Analysis of database (*Smart Card Table*) revealed that out of 26,494 registration certificates issued till September 2011, Smart Card registration certificates were issued in 22,285 cases. Thus, paper based registration certificates continued to be issued by the DTOs, thus defeating the objective of maintaining a uniform tamper proof format of RCs/ permits readable throughout the country.

The Department in their reply (November 2011) while accepting the audit observation stated that necessary steps would be taken to issue Smart Card registration certificates in all cases.

4.7.25 Conclusion

There has been delay of 12 to 41 months in implementing the project. The system is operational in six DTOs; however there are still cases of Registration certificates and driving licenses issued manually. Vahan was not implemented for registration, taxation, issuing permit and its validity relating to commercial and heavy transport vehicles. All the modules like enforcement are not yet operational and some of the applications are being done manually. Paper based registration certificates were still continuing to be issued by the DTOs.

In-house expertise for running the system was not built up adequately as there was over reliance on NIC for system maintenance, administration and backup. The data entry of backlog legacy data has not been completed in State Register and National Register and thus they were incomplete to that extent. Different registration numbers were assigned to vehicles having same chassis numbers by different DTOs. Insurance details were not entered in respect of vehicles which led to a possibility of vehicles getting registered without valid insurance. Necessary checks were not in place to ensure that registration numbers were issued serially and after completion of an ongoing series. All the DTOs were not issuing all the driving licences through Smart Cards. Hand Held Terminals (HHTs), essential for checking Smart Cards, had not been purchased and so the Department cannot verify the Smart Cards possessed by owners of vehicles.

4.7.26 Recommendations

The Government may consider the following recommendations:

- feeding of backlog data entry of old registrations and licences for a complete database for State and National Register;
- making full utilisation of all the modules in 'VAHAN' and 'SARATHI' application softwares;
- put in place a system to ensure that registration is allowed after proper verification by the concerned DTO and that the vehicle has not been registered at any other DTO;
- to ensure that necessary checks are put in place so that registration numbers are issued serially and after completion of an ongoing series;
- 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 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;
- MIS generated 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.

AUDIT OF TRANSACTIONS (REVENUE)

HOME DEPARTMENT

4.8 Non-realisation of cost of armed guards from banks

As per Government of Manipur, Home Department letter No. 3/5(1)/2000-H dated 30 May, 2000, the rate for deployment of Police/Manipur Rifles/CRPF for bank security was fixed at ₹ 2000 per personnel per month. 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 banks. Restoration of security guards will be considered only after clearance of all outstanding charges plus penalty equivalent to the arrear amount.

On test-check of the records (January 2011) of the office of the DGP Manipur, we observed that the armed guard charges amounting to ₹ 6.50 lakh for security guards deployed for the period from December 2008 to March 2011³² to three Banks³³ were not paid by the concerned banks. Although the Department had regularly written to the defaulting banks to clear the outstanding dues, these were not paid and the security guards continued to be deployed in these defaulting banks.

Thus, due to non-compliance of the Government instructions, revenue amounting to ₹ 6.50 lakh was not realised.

The matter was referred to the Government (October 2011) wherein reasons were also asked for non-revision of rates since May 2000; their reply has not been received (January 2012).

³² Updated figure till March 2011, as furnished by the Department have been adopted.

³³ a) State Bank of India-Canchipur
b) Manipur Women Cooperative Bank
c) Manipur Rural Bank, Keishampat

TAXATION DEPARTMENT

4.9 Incorrect allowance of ITC

Section 17 of the Manipur Value Added Tax (MVAT) Act, 2004 read with Rule 36 of the MVAT Rules, 2005 provide *inter alia* no input tax credit (ITC) shall be claimed or be allowed to a registered dealer where the claim is not supported by the original copies of tax invoices in Form-24 issued by the selling dealer.

On Test-check of assessment records (July 2010) maintained by the Taxation zones I and III we observed that the Assessing Authorities (AA) made assessment between April 2009 and May 2010, of two dealers³⁴ for the return

periods ending from March 2009 to March 2010 under Sec 34(3) of the Act ibid on a taxable turnover of 34.80 lakh with tax effect of ₹ 5.87 lakh by entertaining an ITC of ₹ 5.32 lakh. On scrutiny of the assessment records, however, we observed that the claim for ITC was neither supported by the Tax Invoices issued by the selling dealers nor was the details of the invoices depicted in the tax returns filed. The basis on which the claim for ITC was allowed by the assessing officers was thus not known in absence of any records. Thus, the irregular allowance of the ITC by the AA resulted in short levy of VAT to the extent of ₹ 5.32 lakh.

The matter was referred to the Department and the Government during September 2011; their reply had not been received (January 2012).

³⁴ Ms Prakash Store (TIN-14110120154), a dealer in Gallamal, edible oil *etc* and Ms JK Steel (TIN-14310018158), a dealer in GCI Sheets

TRANSPORT DEPARTMENT

4.10 Non-realisation of permit fees and fines

Sec 3(1) of the Manipur Motor Vehicles Taxation Act 1998 read with Schedule-I provides for levy and collection of permit fees payable annually at the rates specified on all motor vehicles used for transport and haulage of goods. As per section 53 of the Motor Vehicles Act, 1988, in case of expiry of permit the Registration Certificates are required to be surrendered. Further, as per Sec 81(2) of the Motor Vehicles Act, 1988 a permit may be renewed on an application made not less than 15 days before the date of its expiry. Under section 15 of the State Act *ibid*, whoever contravenes any of the provisions of the Act shall be punishable with a fine of ₹ 100, ₹ 200 and ₹ 500 in respect of light, medium and heavy vehicles respectively.

On test-check of records (October 2010-January 2011) like permit register, TR5 counterfoils *etc.* maintained by the District Transport Officer (DTO), Thoubal and the DTO, Bishnupur we observed that the road permits in respect of 525 heavy, medium and light vehicles³⁵ (DTO, Thoubal: 298 and DTO, Bishnupur-227) issued by the DTOs concerned had expired during the period between December 2007 to December 2010. Our scrutiny showed that

the permit holders had not applied for renewal of the permits. Thus, permit fees and penalty amounting to ₹ 3.28 lakh (DTO Thoubal: ₹ 2.05 lakh and DTO Bishnupur: ₹ 1.23 lakh) realisable under the aforesaid Act remained unrealised by the DTOs despite the fact that the vehicles were plying on roads without the road permits being renewed as evident from the reply of the Department, that none of the vehicle owners had surrendered their registration certificates. There was nothing on record to show any action taken by the Enforcement Wing, which is required to check the vehicles plying without road permits as per the provisions of the Motor Vehicle Act.

The matter was referred to the Department/Government in September 2011.

³⁵ Heavy goods vehicle/heavy passenger motor vehicle: unladen weight exceeding 12 tonnes
Medium goods vehicle/ medium passenger vehicle: any public /private vehicle other than light or heavy passenger vehicle
Light motor vehicle: A transport vehicle the unladen weight of which does not exceed 7.5 tonnes

On this being pointed out the DTOs of Thoubal and Bishnupur stated (October 2011) that permit fees and penalty amounting to ₹ 0.92 lakh (DTO Thoubal: ₹ 0.25 lakh and DTO Bishnupur: ₹ 0.67 lakh) had been realised from the owners of 169 vehicles. The DTO, Bishnupur further stated (October, 2011) that demand notices were served to the owners of the remaining vehicles for clearance of the permit fees and penalty. The progress on realisation of the remaining amount of permit fees and penalty had not been received (January, 2012). Reply of the Government had not been received (January, 2012).

4.11 Non-recovery of Professional Tax

Under the provisions of the Manipur Professions, Trades, Callings and Employment Taxation Act, 1981, the Government of Manipur, by a notification issued in October 2000, appointed the District Transport Officers (DTOs) posted in the districts as additional taxation officers (redesignated as the Superintendents of Taxes) for collection of Professional Tax (PT) in their jurisdiction. Persons holding permits for taxies, goods vehicles, trucks, buses and three wheelers were required to pay PT at the rate of ₹ 1000 per annum. As per section 20(3) of the Act *ibid*, where a person is in default, the amount due shall be recoverable as an arrear of land revenue by one or more of the following processes namely

- i) by serving a written notice of demand on the defaulter,
- ii) by distraint and sale of defaulter's movable property, and
- iii) by attachment and sale of defaulter's immovable property.

On scrutiny of records (October 2009) of the Director of Transport, Manipur, we noticed that 4695 permits³⁶ in respect of various types of vehicles were issued/renewed during the period between April 2008 and September 2009. However, neither was the PT amounting to ₹ 46.95 lakh (₹ 4695 X 1000) realised from the defaulters nor was any action initiated to recover the PT dues as arrear of land revenue.

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Sl. no.	Type of vehicle	Number of permits	
		Issued	Renewed
1	Goods vehicles and trucks	1472	637
2	Buses	18	604
3	Taxies	900	438
4	Three wheelers	626	-
Total		3016	1679

After we pointed this out, the Department stated (August 2011) that demand notices for ₹ 0.78 lakh were served (June and November 2009) to 40 defaulters³⁷ only and that the Department was not in a position of realising PT due to the Hon'ble Guwahati High Court order under WP(C) No. 398 of 2003 and unwillingness of the owners of the commercial vehicles to pay PT at the flat rate of ₹ 1000 for all types of vehicles.

Though the Department attempted to recover the PT while renewing the permits, they were not successful since the permit holders objected to withholding of the permits for non-payment of PT but the fact remains that the Department/Government have not issued further demand notices or taken steps to recover the PT dues as arrears of land revenue resulting in non-realisation of revenue.

The matter was referred to the Department/ Government in September 2011; their reply had not been furnished (January 2012).

³⁷

Sl. no.	Name of DTO	No of demand notices served
1	DTO, Imphal West	21
2	DTO, Bishnupur	19