

CHAPTER-V

REVENUE RECEIPTS

EXECUTIVE SUMMARY

Revenue Receipts Reasons for increase in Revenue Receipts over those of the previous year	<p>During the year 2010-11, the revenue raised by the State Government (₹ 5,083.54 crore) was 44 <i>per cent</i> of the total Revenue Receipts. The balance 56 <i>per cent</i> of receipts (₹ 6,524.63 crore) during 2010-11 were from the GOI.</p> <p>Sales Tax/VAT: Increase of price of diesel and petrol, imposition of additional tax, better management in tax realisation and administration of the VAT Regime, successful efforts in curbing tax evasion attempts and increase in the GSDP index of the State.</p> <p>Stamp and Registration Fees: Increase in numbers of Sale deeds during the year.</p>
Mandate	The audit of Revenue Receipts of the Government of Uttarakhand is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.
Results of audit conducted by us in 2010-11	Test check of the records of 112 units under Revenue Departments conducted during the year 2010-11 revealed under assessment/short levy/loss of revenue and other deficiencies aggregating ₹ 115.53 crore in 241 cases. During the course of the year, the Departments concerned accepted under-assessments and other deficiencies of ₹ 0.31 crore involved in 13 cases which was pointed out by us during 2010-11 and recovered ₹ 0.28 crore in 44 cases during the year.
Very low recovery by the Departments in respect of observations pointed out in Audit Reports of earlier years	During the period 2005-06 to 2009-10, the Departments/ Government accepted audit observations involving ₹ 10.38 crore of which only ₹ 0.02 crore had been recovered till March 2011 i.e. only 0.19 <i>per cent</i> of the accepted amount. This highlights the need for the Government to take concerted action to effect recoveries in the accepted cases.
What we have highlighted in this Chapter	<p>In this Chapter we present two illustrative cases of ₹ 1.03 crore selected from observations noticed during our test check of records relating to revenue units of Sales Tax and State Excise wherein we found that the provisions of the Acts/Rules were not observed. The paras relate to underassessments/loss of revenue due to excess loss claimed on sale of goods and excessive wastages in production of alcohol with reference to prescribed norms.</p> <p>We also present two Performance Audits on “Computerisation in the Motor Vehicle Department” and “Cross Verification of Declaration Forms in Inter State Trade and Commerce” relating to system deficiencies in administration of the Central Sales Tax Act provisions and non-assessment, loss of revenue and other compliance deficiencies involving financial effect of ₹ 0.33 crore and ₹ 0.36 crore respectively.</p>
Our conclusions	The Government needs to initiate immediate action to set right the systems deficiencies pointed out in our Performance Audits on “ Computerisation in the Motor Vehicle Department ” and “ Declaration Forms in Inter State Trade and Commerce ” and also to recover the tax involved in the observations in the Audit Reports.

5.1 GENERAL

5.1.1 The tax and non-tax revenue raised by the Government of Uttarakhand during the year 2010-11, the State's share of net proceeds of divisible Union taxes

and duties assigned to State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in table-5.1.1 below:

Table-5.1.1 (₹ in crore)

Sl.No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	• Tax Revenue	2,513.78	2,738.75	3,044.91	3,559.04	4,405.48
	• Non-tax revenue	646.82	668.38	699.44	631.86	678.06
Total		3,160.60	3,407.13	3,744.35	4,190.90	5,083.54
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1,131.83	1,427.70	1,506.59	1,550.01	2,460.07 ¹
	• Grants-in-aid	3,080.79	3,056.26	3,384.03	3,745.22	4,064.56
Total		4,212.62	4,483.96	4,890.62	5,295.23	6,524.63
3.	Total Revenue Receipts of the State Government (1 and 2)	7,373.22	7,891.09	8,634.97	9,486.13	11,608.17
4.	Percentage of 1 to 3	42	43	43	44	44

Source: Finance Accounts 2010-11.

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 5083.54 crore) was 44 *per cent* of the total Revenue Receipts. The balance 56 *per cent* of receipts (₹ 6,524.63 crore) during 2010-11 was from the Government of India.

5.1.2 Tax revenue

The table-5.1.2 below presents the details of tax revenue raised during the period 2006-07 to 2010-11:

Table-5.1.2 (₹ in crore)

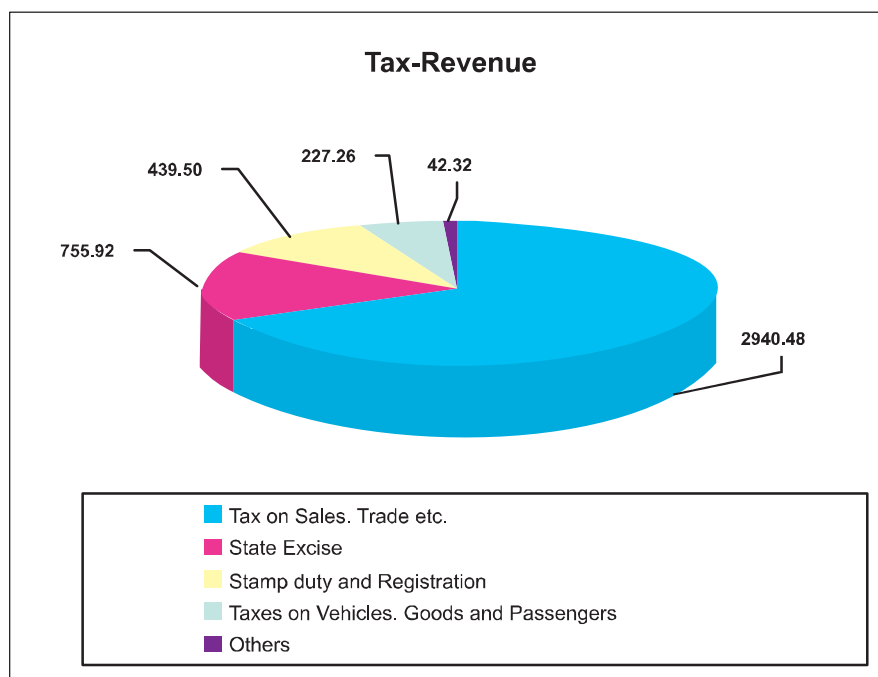
Sl. No	Head of Revenue Receipt	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of Increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Tax on Sales, Trade etc	1,361.42	1,627.41	1,910.64	2,246.84	2,940.48	(+) 30.87
2.	State Excise	372.91	441.56	528.35	704.64	755.92	(+) 7.28
3.	Stamp Duty and Registration Fees	546.32	424.27	357.46	398.70	439.50	(+) 10.23
4.	Taxes on Vehicles, Goods and Passengers	141.46	155.26	166.98	184.56	227.26	(+) 23.14
5.	Taxes and Duties on Electricity	66.19	55.22	51.61	2.11	2.16	(+) 2.37

¹ For details see statement No. 11-detailed accounts of revenue receipts by minor heads in the Finance Accounts of the Government of Uttarakhand for the year 2010-11. Figures under the major heads 0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0032-Taxes on Wealth, 0037-Customs, 0038- Union Excise Duties and 0044-Service Tax. Share of net proceeds assigned to States booked in Finance Accounts 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.

6.	Land Revenue	15.42	23.40	17.90	8.80	18.31	(+) 108.07
7.	Other taxes and Duties on Commodities and Services	5.44	6.45	5.87	6.27	12.15	(+) 93.78
8.	Others	4.62	5.18	6.10	7.12	9.70	(+) 36.24
Total		2,513.78	2,738.75	3,044.91	3,559.04	4,405.48	(+) 23.78

Source: Finance Accounts 2010-11.

Chart-5.1



The following trends were observed in collection of tax revenue by the State:

- Revenue from Taxes on Sales, Trade etc. contributed to 66.75 per cent of total tax collections in 2010-11. State Excise, Stamp Duty and Registration Fees and taxes on Vehicles together accounted for 32.29 per cent of the total tax in 2010-11. Taxes on Sales, Trade etc. after witnessing 34.22 per cent increase after introduction of VAT in 2005, slowed down to an increase of 17.60 per cent in 2009-10 over the previous year, due to increase in the ITC claims with stabilisation of VAT regime but again gained a hike and increased by 30.87 per cent in 2010-11 over the previous year.
- The Commercial Tax Department stated (October, 2011) that the increase in revenue receipts was due to increase of price of diesel and petrol, imposition of additional tax, better management in tax realisation, successful efforts in curbing tax evasion attempts and increase in the GSDP index of the State.
- The Stamp Duty and Registration Department receipts increased due to increase in registration of Sale deeds from 1,39,464 in 2009-10 to 1,81,786 in 2010-11.

- Taxes and Duties on Electricity registered a decrease of 95.91 *per cent* despite increase in billing and collection by Uttarakhand Power Corporation Ltd² (UPCL) during the year 2009-10. As against the total assessment of ₹ 97.64 crore no payment could be made to the Government during the year 2009-10 as the Corporation was continuously running under loss. The position remained more or less stagnant as there was a nominal increase of 2.37 *per cent* during 2010-11.

The other Departments did not furnish (November, 2011) the reasons for variation, though called for (September, 2011).

5.1.3 Non-tax revenue

The table-5.1.3 below presents the details of the non-tax revenue raised during the period from 2006-07 to 2010-11:

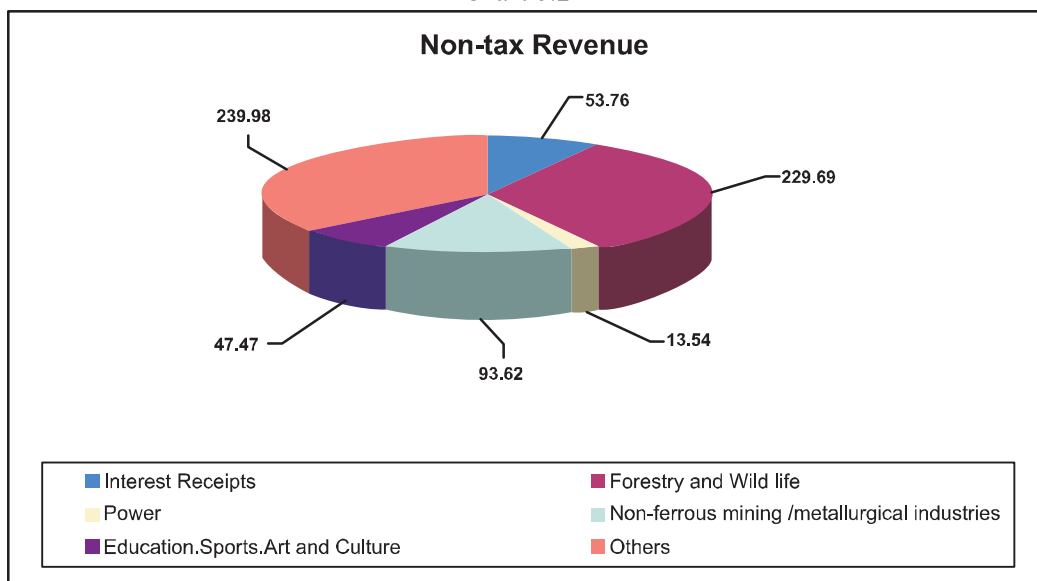
Table-5.1.3 (₹ in crore)

Sl. No	Head of revenue receipt	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage increase (+)/decrease (-) in 2010-11 over 2009-10
1.	Interest Receipts	40.94	41.56	68.49	53.71	53.76	(+) 0.09
2.	Forestry and Wildlife	188.09	209.75	207.16	235.70	229.69	(-) 2.55
3.	Power	172.22	144.37	171.37	56.13	13.54	(-) 75.88
4.	Non-Ferrous Mining/ Metallurgical Industries	62.58	73.06	63.73	74.08	93.62	(+) 26.38
5.	Education, Sports, Art and Culture	23.34	30.69	28.66	34.18	47.47	(+) 38.88
6.	Public Works	11.52	13.96	15.53	19.50	24.83	(+) 27.33
7.	Major and Medium Irrigation	5.69	5.76	5.91	5.18	5.10	(-) 1.54
8.	Police	5.24	5.96	7.01	9.62	11.26	(+) 17.05
9.	Other Administrative Services	11.83	35.53	28.09	21.18	47.15	(+) 122.62
10.	Medical & Public Health	4.29	5.29	6.84	11.73	29.01	(+) 147.31
11.	Co-operation	3.99	5.58	3.19	1.78	1.70	(-) 4.49
12.	Crop Husbandry	2.73	3.94	3.62	4.55	3.78	(-) 16.92
13.	Others	114.36	92.93	89.84	104.52	117.15	(+) 12.08
Total		646.82	668.38	699.44	631.86	678.06	(+) 7.31

Source: Finance Accounts 2010-11.

² The duties are collected by UPCL in bills raised against consumers for consumption of energy, with the billing cycles varying for different categories of consumers.

Chart-5.2



The following trend were observed in collection of non-tax revenue by the State:

- Non-tax revenue has remained more or less stagnant since 2006-07 onwards. At ₹ 678.06 crore, non-tax revenue constituted 5.84 *per cent* of the total receipts, whereas the increase over the pervious year was 7.31 *per cent*. Forest and Wild life (33.87 *per cent*) and Non- Ferrous Mining/Metallurgical Industries³ (13.81 *per cent*) have been the principal contributors to non-tax revenue.

5.1.4 Variation between the budget estimates and actual

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 table-5.1.4 below:

Table-5.1.4

(₹ in crore)

Sl. No.	Head of Revenue Receipt	Budget estimates	Actuals	Variation increase (+) decrease (-)	Percentage
Tax revenue					
1.	Taxes/VAT on Sales Trade etc.	2,586.00	2,940.48	(+) 354.48	(+) 13.71
2.	State Excise	686.93	755.92	(+) 68.99	(+) 10.04
3.	Stamp Duty and Registration Fees	425.65	439.50	(+) 13.85	(+) 3.25
4.	Taxes on Vehicles	225.30	227.26	(+) 1.96	(+) 0.87
5.	Taxes and Duties on Electricity	72.00	2.16	(-) 69.84	(-) 97
Non-tax revenue					
6.	Interest Receipts	62.01	53.76	(-) 8.25	(-) 13.30
7.	Other Administrative Services	10.12	47.15	(+) 37.03	(+) 365.91
8.	Crop Husbandry	4.88	3.78	(-) 1.10	(-) 22.54
9.	Police	9.01	11.26	(+) 2.25	(+) 24.97

³ Royalty charges levied on Non-Ferrous Mining/Metallurgical Industries.

10.	Medical and Public Health	11.48	29.01	(+) 17.53	(+) 152.70
11.	Roads and Bridges	5.13	1.53	(-) 3.60	(-) 70.18
12.	Public Works	14.51	24.83	(+) 10.32	(+) 71.12
13.	Forestry and Wildlife	266.10	229.69	(-) 36.41	(-) 13.68
14.	Non-Ferrous Mining and Metallurgical Industries	99.01	93.62	(-) 5.39	(-) 5.44
15.	Education, Sports, Art and Culture	19.17	47.47	(+) 28.30	(+) 147.63
16.	Power	230.00	13.54	(-) 216.46	(-) 94.11

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

The reasons for the variations are as follows:

Commercial Tax Department stated (October, 2011) that the variation in VAT receipts with reference to the estimates was due to increase in prices of diesel and petrol, imposition of additional tax, better management in tax realisation, successful efforts in curbing tax evasion attempts and increase in the GSDP index of the State.

The other Departments did not inform (November, 2011) about the variations, despite being requested (September, 2011).

5.1.5 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 alongwith the relevant all India average percentage of expenditure on collection to gross collections for 2009-10 are mentioned in the table-5.1.5 below:

Sl. No.	Head of revenue	Year	Gross Collection ⁴	Expenditure on collection	Percentage of expenditure to gross on collection	All India average percentage for the year 2009-10
1.	Sales/Commercial Tax/ VAT	2008-09 2009-10 2010-11	1,902.38 2,240.84 2934.95	34.16 39.31 38.58	1.79 1.75 1.31	0.96
2.	State Excise	2008-09 2009-10 2010-11	528.32 703.71 755.98	5.95 7.33 8.57	1.13 1.04 1.13	3.64
3.	Taxes on Vehicles	2008-09 2009-10 2010-11	163.84 182.16 216.26	10.03 10.64 13.22	6.12 5.84 6.11	3.07
4.	Stamp Duty and Registration Fees	2008-09 2009-10 2010-11	357.44 398.75 439.45	5.45 5.72 11.37	1.52 1.43 2.58	2.47

Source: Concerned State Department.

Thus, the cost of collection in respect of State Excise and Stamp and Registration Fees were lower than the all India average percentage for the year 2009-10, while in the case of Taxes on Vehicles and Sales/Commercial Tax/VAT were considerably higher. Transport Department stated (October, 2011) that higher cost

⁴ The figure for collection of all four taxes in the year 2008-09 to 2010-11, provided by the State Departments and reflected in the table are at variance with the figures reflected in the Finance Accounts.

of collection in comparison with all India average was due to disbursement of arrears pay of the Sixth Pay Commission to its employees/retired officials, some recruitment and enhancement of financial assistance to dependents of deceased and injured persons during the year 2009-10.

The Sales/Commercial Tax/VAT Department did not inform about the reasons for higher cost of collection (October, 2011).

5.1.6 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on Sales, Trade etc., and Entry Tax during the year 2010-11 as furnished by the Commercial Taxes Department is mentioned in the table-5.1.6 below:

Table-5.1.6 (₹ 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
Taxes/ VAT on Sales, Trade etc.	2010-11	2451.60	502.48	1.36	26.46	2928.98	83.70
Entry Tax	2010-11	5.96	-	-	-	5.96	100

Collections made under Commercial Tax and Entry Tax at the pre-assessment stage were to the extent of 83.70 *per cent* whereas 16.30 *per cent* of the net collection was collected after regular assessment.

5.1.7 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 ₹ 1249.80 crore of which ₹ 254.99 crore (20.40 *per cent*) were outstanding for more than five years as per details mentioned in the table-5.1.7 below:

Table-5.1.7 (₹ 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.	881.07	249.90	Recovery of ₹ 97.11 crore is <i>subjudice</i> and Recovery Certificates have been issued for ₹ 208.46 crore.
2.	Taxes on Vehicles	4.43	2.06	Department stated that 403 cases were <i>subjudice</i> and for rest of the cases demand for recovery had been processed through D.M.
3.	Land Revenue	0.38	0.01	Recovery of revenue was withheld upto 31-03-2011 by Government due to heavy rains during 2010-11.
4.	State Excise	0.48	0.48	The Department stated that one case amounting to ₹ 12.08 lakh is pending in the court of law. In other cases action is being taken to recover the amount.
5.	Taxes and Duties on Electricity	352.61	-	Department stated that regular correspondence is being made with Uttarakhand Power Corporation Ltd.

6.	Public Works Department	1.73	0.86	The Department stated that efforts for speedy recovery are being made. Recovery of ₹ 0.04 lakh is <i>subjudice</i> .
7.	Entertainment Tax	0.63	0.04	Department stated that cases amounting to ₹ 48.05 lakh are pending in the court of law. In rest of the cases recovery certificates have been issued.
8.	Stamp Duty and Registration Fees	3.22	1.64	-
9	Taxes on purchase of Sugarcane	5.25	-	Due to exemption to Kashipur Sugar Mills, under BIFR, for four years ₹ 123.12 lakh were in arrear. The matter is <i>subjudice</i> .
Total		1249.80	254.99	

Source: State Department.

5.1.8 Arrears of Assessment

The table-5.1.8 below shows details of assessment position of Sales Tax/VAT returns during the period 2005-06 to 2009-10.

Table-5.1.8

Year	No. of cases for tax assessment during the year	No. of tax assessment cases assessed so far	No. of tax assessment cases not assessed so far	Efforts being made for cases not assessed so far
2005-06	1,10,620	1,10,620	--	--
2006-07	84,403	84,403	--	--
2007-08	82,172	82,172	--	--
2008-09	87,857	10,243	77,614	Time barred by March, 2012. Efforts are being made to assess these cases timely.
2009-10	47,450	1,762	45,688	Time barred by March, 2013. Efforts are being made to assess these cases timely.

Source: State Department (September, 2011).

The Department stated that efforts are on to complete the assessments in time.

5.1.9 Evasion of Tax

The details of cases of evasion of tax detected by the Commercial Tax Departments, cases finalised and demands for additional tax raised in 2010-11, as reported by the Department concerned are mentioned in the table-5.1.9 below:

Table-5.1.9

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)	
Commercial Tax/VAT	2308	2,999	5,307	3,814	773.38	1,493

Source: State Department.

5.1.10 Refunds

Commercial Tax Department settled 95.15 *per cent* of the refund claims in 2010-11 while in the case of Stamp Duty and Registration, all the cases were settled during the year as mentioned in the table-5.1.10 below.

Table-5.1.10 (*₹ in lakh*)

Sl. No.	Particulars	Commercial Tax		Stamp Duty and Registration Fee	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	502	1,319.65	Nil	Nil
2.	Claims received during the year	6,318	2,920.90	12	214.83
3.	Refunds made during the year	6,489	2,645.88	12	214.83
4.	Balance outstanding at the end of the year	331	1,594.67	Nil	Nil

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

The Principal Accountant General (Audit), Uttarakhand (Pr.AG) conducts periodical inspection of the Government Departments concerned to test check the transactions and verify the maintenance of the 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 Pr.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 2,432 paragraphs involving ₹ 280.88 crore relating to 1,213 IRs remained outstanding at the end of June 2011 as mentioned in the table-5.1.11 below along with the corresponding figures for the preceding two years:

Table-5.1.11

	June 2009	June 2010	June 2011
Number of IRs pending for settlement	1,098	1,159	1,213
Number of outstanding audit observations	2,211	2,323	2,432
Amount involved (₹ in crore)	228.11	245.26	280.88

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned in the table-5.1.12 below:

Table-5.1.12

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade etc.	350	915	70.79
		Electricity duty	56	66	68.05
		Entertainments tax, Luxury Tax, etc.	50	81	1.21
2.	Excise	State Excise	70	102	53.02
3.	Revenue	Land Revenue	148	243	8.05
4.	Transport	Taxes on Motor Vehicles	95	272	35.12
5.	Stamps and Registration	Stamps and Registration fees	276	421	11.11
6.	Others	-	168	332	33.53
Total			1,213	2,432	280.88

5.1.12 Departmental Audit Committee Meetings

In order to expedite the settlement of the outstanding audit observations contained in IRs on Revenue Receipts of the Government of Uttarakhand, the Departmental Audit Committees were constituted by the Government. Four Audit Committee Meetings were held during the year 2010-11 for early settlement of the outstanding audit observations and as a result of these meetings, 23 paras pertaining to Excise and Entertainment Departments were settled during the year.

5.1.13 Response of the Department to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller & Auditor General of India are forwarded to the Secretaries of the Department concerned, drawing their attention and requesting for their response within six weeks. The fact that in case of non receipt of replies from the Departments/Government within stipulated time will tantamount to acceptance of facts and figures of draft paras by the Department/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

5.1.14 Follow up on Audit Reports-summarised position

After creation of the State, the Public Accounts Committee had been notified in the May 2001. The Report of the Comptroller & Auditor General of India is laid in the Legislative Assembly and the Departments initiate action on the audit paragraphs. The action taken/ explanatory notes thereon are to be submitted by Government for the consideration of the Committee. The explanatory notes on audit paragraphs of the Reports were being delayed inordinately by Department/Government. The Reports of the Comptroller & Auditor General of India on Revenue Receipts of the Government of Uttarakhand for the years 2000-01 to 2005-06 were discussed in the Public Accounts Committee in the

period 2005-06 to 2010-11 and explanatory notes/action taken in seven cases were awaited as on 31 March 2011.

5.1.15 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 the audit observations and other parameters. The annual Audit Plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues and tax administration i.e. budget speech, White Paper on State Finances, Reports of the Finance commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past 5 years etc.

During the year 2010-11, the audit universe comprised of 574 auditable units, of which 116 units were planned and 101 units were audited during the year 2010-11 which is 87 *per cent* total planned units.

5.1.16 Analysis of the mechanism for dealing with the issues raised by Audit – Commercial Taxes

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 of the last five years in respect of the Commercial Taxes Department was evaluated.

The summarised position of the Inspection Reports relating to Commercial Tax Department, issued during the last five years, paragraphs included in these Reports and their status as on 31 March 2011 is tabulated in the table-5.1.13 below:

Table-5.1.13

(₹ in crore)

Sl. No.	Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
		IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value
1.	2006-07	180	384	16.57	34	137	3.69	Nil	Nil	Nil	214	521	20.26
2.	2007-08	214	521	20.26	22	93	1.55	3	57	2.51	233	557	19.30
3.	2008-09	233	557	19.30	49	206	21.63	8	69	2.32	274	694	38.61
4.	2009-10	274	694	38.61	44	105	12.04	6	48	0.64	312	751	50.01
5.	2010-11	312	751	50.01	54	158	89.37	6	32	0.70	360	877	138.68

No Audit Committee meetings were arranged by the Government/Department for settlement of IRs and paragraphs. As is evident from the above table, against 180 IRs with 384 outstanding paragraphs as on 2006-07, the number of outstanding IRs rose to 360 with 877 paragraphs at the end of 2010-11, whereas 206 paras were cleared during the period.

This is indicative of the fact that adequate efforts were not made by the Department to take action in the interest of revenue of the State, resulting in piling up of the outstanding IRs and paragraphs.

5.1.17 Recovery of revenue of accepted cases

In respect of paragraphs featured in the Audit Reports 2005-06 to 2009-10, the Department/Government accepted audit observations involving ₹ 10.38 crore of which only ₹ two lakh was recovered till 31 March 2011 as mentioned in the table-5.1.14 below:

Table-5.1.14

(₹ in crore)

Year of Audit Report	Total Money value	Accepted money value	Recovered Amount
2005-06	7.58	3.19	0.01
2006-07	1.03	0.02	0.01
2007-08	60.48	0.05	Nil
2008-09	7.00	0.91	Nil
2009-10	8.47	6.21	Nil
Total	84.56	10.38	0.02

The fact that only 0.19 *per cent* of the accepted amount has been recovered, points to the need for the Government to take concerted action in this regard.

5.1.18 Results of audit

Test check of the records of 112 units of Commercial Tax, State Excise, Motor Vehicles and other Departmental offices conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating to ₹ 115.53 crore in 241 cases, of which the Department accepted ₹ 31.06 lakh in 13 cases and recovered ₹ 28.18 lakh in 44 cases.

This Chapter contains two paragraphs involving money value of ₹ 1.03 crore and two Performance Audits on “**Computerisation in the Motor Vehicle Department**” and “**Cross Verification of Declaration Forms in Inter State Trade and Commerce**” having financial impact of ₹ 0.33 crore and ₹ 0.36 crore respectively. The Department/Government accepted money value of ₹ 0.22 crore. These are discussed in succeeding paragraphs.

MOTOR VEHICLE DEPARTMENT

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

Highlights

- ❖ *The plan of computerisation for implementation of VAHAN and SARATHI software was executed in two phases in fifteen RTO/ARTO offices whereas RTO Dehradun was computerised on pilot basis in 2003 itself. In the first phase, four RTOs and five ARTOs were computerised by March 2007 while in second phase, six ARTOs were computerised by March 2010.*

[Paragraph 5.2.7]

- ❖ *The Departmental employees handle entire data entry at the Departmental counters but the database administration is handled by outsourced agency. The Department did not develop technical expertise within the Department to handle the database administration.*

[Paragraph 5.2.9]

- ❖ *In absence of interlinking of Regional Transport offices and Transport Commissioner office, the intended objectives of computerisation such as online transmission of data to all other offices, cross verification, elimination of duplicate registration of vehicles, elimination of bogus duplicate licences, etc. could not be achieved in full.*

[Paragraph 5.2.10]

- ❖ *Backlog entries relating to 80-90 per cent of the old driving licences and 25-30 per cent of the old registrations are yet to be fed in the database of the State Consolidation Register (SCR) and the State Register (SR). Thus the State Register and National Registers are incomplete to that extent.*

[Paragraph 5.2.11]

- ❖ *Check Posts are important enforcement points where vehicles are checked for possession of valid permits and licences. The Department did not implement the process of computersation of the Check Posts.*

[Paragraph 5.2.12]

- ❖ *No provision/module has been made in the Vahan software for issue of trade certificate to vehicle dealers and these are being issued manually resulting in non renewal of the certificates in time and non recovery of prescribed fees. There is also no module/provision in the software for levy and recovery of surcharge under “Uttarakhand Road Transport Relief Fund”, as a result of which the Fund was being realised manually only in two ARTO offices out of the eight RTO/ARTO offices checked by us.*

(Paragraphs 5.2.13, 5.2.14)

- ❖ *The tax module was not designed in a manner so that the correct distances could be mapped in the system which led to manipulation of distances by the data entry operators. Short calculation/levy of additional tax due to, wrong feeding of rates/distances in the Vahan software resulted in short realisation of additional tax of ₹2.58 lakh in test checked units.*

[Paragraphs 5.2.15, 5.2.18]

- ❖ *We saw inadequate supervision controls in implementation of SARATHI system resulting in irregularities in conducting of tests for issue of learner/regular driving licences and insufficient/incorrect documentation on record regarding licences issued.*

[Paragraph 5.2.24]

5.2.1 Introduction

The Transport Department, one of the major revenue earning Department, in the State of Uttarakhand 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 a 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 softwares 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 by the State Government in four RTOs and five ARTO offices in March 2007 and in six ARTO offices in March 2010.

5.2.2 Organisational Set-up

The Transport Department is headed by the Transport Commissioner. There are four Regional and eleven sub Regional offices in the State. Besides, there are 19 regular and five seasonal Check Posts. The over all control of the Department lies with the Transport Commissioner at Dehradun.

5.2.3 Audit Objectives

The Performance Audit was conducted with a view to assess:

- the extent to which the objectives of the computerisation had been achieved ;
- that the computerised system implemented were complete and to ensure the correctness and completeness of the data captured;
- that the software adequately addressed the business needs and to ensure the correctness of the realisation of tax and additional tax etc;
- that there were sufficient validation checks in the software ;
- connectivity between the field offices and the Headquarter; and
- internal control mechanism.

5.2.4 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;

- Uttar Pradesh Motor Vehicle Rules, 1998;
- Uttarakhand Motor Vehicles Taxation Reforms Act, 2003;
- Uttarakhand Motor Vehicles Taxation Reforms Rules, 2003; and
- Departmental Manuals/Notifications.

5.2.5 Scope of audit and methodology

The Performance Audit was conducted between June 2011 and August/September 2011 through test check of the application software of three⁵ out of four R.T.Os, five⁶ out of 11 A.R.T.O offices, three⁷ out of 19 Check Posts and office of the Transport Commissioner for the period since the software was implemented in these units *i.e.* from March 2007 to March 2011. The selection of the units was made on the basis of 'Probability Proportional to Size without Replacement (PPSWOR)' method. Under this method, the sampling has been done on the basis of total revenue collection for the period from 2007-08 to 2009-10 for each unit and random sampling method has been used for selection of the units.

5.2.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing necessary information and records for audit. An Entry Conference was held on 24th June, 2011 with the Asstt. Transport Commissioner and other Departmental officers wherein the audit objectives and scope of audit were discussed. The draft Performance Audit was forwarded (October, 2011) to the Department. The Exit Conference was held with the Commissioner, Transport Department, Uttarakhand on 06.02.2012. The replies of the Department during Exit Conference have been incorporated in the relevant paragraphs of the Performance Audit.

Audit findings

5.2.7 Status of Computerisation in the State

There are four RTOs and 11 ARTOs in the State and the Computerisation of these RTOs and ARTOs was started with the implementation of VAHAN in R.T.O, Dehradun on pilot basis in the year 2003. NIC was entrusted with the responsibility of supply of the software of VAHAN and SARATHI and its installation and implementation. A State Govt. Undertaking namely M/s HILTRON was entrusted with the work of supply, installation and benchmarking of computers, peripherals, servers and networking equipments. The work of computerisation was completed by the undertaking in two phases as mentioned in the table-5.2.1 below:

⁵ RTOs; Dehradun, Pauri, Nainital.

⁶ ARTOs: Rishikesh, Haridwar, U.S.Nagar, Rudraprayag, Kotdwar.

⁷ Check Post : Rudrapur, Kashipur, Narsen.

Table-5.2.1

Phase	Name of the RTOs	Name of the ARTOs	Date of completion
I	Dehradun, Pauri, Nainital and Almora	Haridwar, Rishikesh, Kotdwar, Udham Singh Nagar and Tanakpur	March 2007
II	Nil	Tehri, Uttarkashi, Karanprayag, Rudraprayag, Pithoragarh and Bageshwar	March 2010

Thus, it would be seen from the above, that it took about seven years to complete the computerisation of MVT Department since its inception in 2003 at RTO, Dehradun. Even the State Government undertaking took four years to complete the project of computerisation in the State.

Balance fund with HILTRON

Against total fund of ₹ 5.11 crore disbursed to M/s HILTRON, they have submitted expenditure statement of ₹ 4.27 crore. Thus, balance fund of ₹ 83.99 lakh are still outstanding with M/s HILTRON since the year 2009.

During Exit Conference the Department stated that M/s Hiltron has been directed (July, 2011) for depositing the amount in the treasury.

5.2.8 Absence of Internal Audit and physical verification of Assets

We noticed that no internal IT audit was conducted to get an assurance on the working of the computerised system in RTO and ARTO offices. The headquarter office issued a circular on 18 August 2008 for maintenance of IT asset register and its physical verification. We noticed that though the register was maintained, no physical verification of the IT assets was conducted in any of the units checked by us.

We recommend that the Government may ensure that internal/IT audit inspection are conducted as part of the internal controls mechanism.

5.2.9 Manpower Management and 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. Though the employees of the Department handle entire data entry at the Departmental counters, yet the database administration is handled by outsourced agency. In spite of the importance of the data and data confidentiality, the Department could not develop technical expertise within the Department.

The sanctioned strength *vis-a-vis* effective strength of the Transport Department for the period from 2008-09 to 2010-11 is given in the table-5.2.2 below:

Table-5.2.2

Cadre	Sanctioned Strength			Men in Position			Shortage		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Group A	11	11	11	06	06	06	05	05	05
Group B	59	59	59	12	20	28	47	39	31
Group C	476	476	476	270	276	289	206	200	187
Total	546	546	546	288	302	323	258 (47%)	244 (45%)	223 (41%)

From the above table, it is evident that there is a considerable shortage of man power of 41 to 47 *per cent* from 2008-09 to 2010-11 in the Transport Department which adversely impacted the regular functioning of the Department.

During Exit Conference the Department stated that the appointment/promotions are in progress for filling up vacant posts. The Department further stated that on job training has been imparted to the staff by NIC, but the results were not upto the mark. Due to non availability of expertise, NIC has provided a data base administrator for each office.

5.2.10 Partial computerisation of VAHAN- Absence of Interlinking of RTOs

One of the objectives of computerisation was automatic flow of data from one RTO/ARTO to another RTO/ARTO.

We noticed though all RTOs and ARTOs were computerized, they were neither interlinked with each other nor with the Transport Commissioners' office at Dehradun.

Our test check of the records revealed that 16 vehicles registered in RTO, Dehradun and 17 vehicles registered in ARTO Rudrapur paid additional tax at ARTO Tehri, Haridwar, Rishikesh and RTO, Haldwani respectively. Due to non-interlinking of the RTOs/ARTOs, tax clearance certificate could not be issued by RTO, Dehradun and by ARTO, Rudrapur, till the owners of the vehicle produced proof of payment of additional tax. Thus in the absence of interlinking the intended objectives of computerisation such as online transmission of data to all other offices, cross verification, duplicate registration of vehicles, elimination of bogus duplicate licences etc. could not be achieved in full.

During Exit Conference, the Department stated that RTO/ARTO offices have been connected with broadband/VPN and a lease line has been provided in the Office of the Commissioner, Transport Department. Though the data is available at State NIC unit, its availability shall also be made at Headquarters' office after consultation with NIC.

5.2.11 Maintenance of State/National Register

The State Consolidation Register (SCR) and the State Register (SR) is being maintained by the NIC unit, Dehradun. The data is also sent to the National Register from the State Register. The formats have been designed in consultation

with the State Government as well as Ministry of Road Transport & Highways (MoRTH). The backup of the data is taken up in a standby server and a portable hard disk and the same is sent to NIC unit, Dehradun through broadband VPN by the field offices for consolidation and preparation of SCR and SR.

On being approached, the NIC unit, Dehradun, stated that the SCR and SR have been completed and the State Government has been requested to launch the same. The details of legacy data was not provided to us, however the Transport Commissioner intimated that 80-90 *per cent* of the old driving licenses and 25-30 *per cent* of the old registrations are yet to be fed in the database. This indicated that the State Register and National Register are incomplete to that extent.

During Exit Conference, the Department stated in reply that the backlog data entry of the old driving licence is done when the licence is received for renewal or any other process. As the old driving licences were in large number, a policy was needed to be framed in this regard. As regards the backlog data entry of registration of old vehicles, the data entry in respect of transport vehicles had nearly been completed. However the RTO/ARTO had been directed again to complete the backlog data entry.

We recommend that the State Government may take necessary steps for feeding the backlog of licenses/registrations.

5.2.12 Non-Computerisation of the Check Posts

Check posts are important enforcement points where vehicles are checked for possession of valid permit and payment of tax. Overloading of goods in the goods vehicle is also checked at the Check Posts. Though the Department had an objective of computerisation of the Check Posts, it was not implemented till date. We further noticed that no separate proposal was prepared for computerisation of the Check Posts. There are nineteen regular and five seasonal Check Posts in the State and our test check in one of the Check Posts at Kashipur revealed that it did not have the basic infrastructure facility like accommodation required for installation of computers.

During Exit Conference, the Department stated that the proposal for computerisation of check posts was being prepared. After approval from the Government, further action would be taken.

Mapping of Business Rules

5.2.13 Non-Mapping of CMV Rule 33 relating to Trade Certificate in VAHAN

Rule 33 of Central Motor Vehicle Rules, 1989, stipulates that a motor vehicle in possession of a dealer shall be exempt from the necessity of registration subject to the condition that he obtains a trade certificate from the concerned Registering Authority. The trade certificate shall be in force for a period of twelve months

from the date of issue or renewal. The certificate is required to be renewed annually on payment of prescribed fee.

In test checked three RTOs and five ARTOs, we found that trade certificates were being issued manually. No module for issue, renewal and collection of fee for the trade certificates was provided in the VAHAN software developed by the NIC. Our test check of the records in two⁸ RTOs and two⁹ ARTOs revealed that the trade certificates had not been renewed timely. The delay in renewal ranged from three months to two years.

Further, in ARTO Haridwar, two dealers applied for issuance of 211 trade certificates for which a fee of ₹ 21,100 was deposited against a fee of ₹ 42,200. Thus the dealers short deposited ₹ 21,100. Non-availability of a module in the software for issuance of trade certificates, resulted in lack of a check on the prescribed fee to be deposited besides renewal of trade certificates by the dealers in time.

During Exit Conference the Department stated that the software for issuance of Trade certificate would be developed in consultation with State NIC unit.

5.2.14 Non-mapping of Section 6(5) of the Uttarakhand Motor Vehicle Taxation Reforms Act, 2003, relating to Accident Relief Fund in VAHAN

As per Section 6(5) of the Uttarakhand Motor Vehicle Taxation Reforms Act, 2003, where a public service vehicle is wholly or partially exempt from the payment of additional tax by or under the Act, a surcharge for the purpose of fund established under Section 8 known as “Uttarakhand Road Transport Accidents Relief Fund” shall be levied @5% of the additional tax which would be due if not exempted.

We found that the given Rule was not mapped in the VAHAN software and the fund was being recovered manually only in two ARTO offices whereas in remaining six RTOs/ ARTOs it was not being realised at all. Absence of the provisions resulted in non-realisation of the fund in these RTOs/ARTOs.

Thus, the above facts indicate that the Department should map the provisions relating to issue of Trade Certificate and Accident Relief Fund in VAHAN so that there is timely renewal of the trade certificates and uniformity in realisation of Accident Relief fund.

During Exit Conference, the Department stated that calculation of Accident relief fund, as suggested by the audit, would be made through software after consultation with NIC.

We recommend that the Department may consider mapping of business Rules like provisions relating to issue of Trade Certificate and Accident Relief Fund in VAHAN.

⁸ RTO, Dehradun and Pauri.

⁹ ARTO, Rishikesh and Haridwar.

5.2.15 Incorrect Mapping of distances in Tax Table of VAHAN

As per Article I of Fourth Schedule of Uttarakhand Motor Vehicle Taxation Reforms Act, 2003, the rates of additional tax for stage¹ carriage (per seat per quarter) is ₹ 154/146 (Plain/Hill) for a distance run up to 4500 Km and if the distance exceeds this limit, ₹ 0.04 per Km/seat shall be added to the amount prescribed up to 4500 kms. Further, explanation (1) below the Schedule indicates the total quarterly tax payable shall be such number of times of the rates given, as the maximum number of seats permitted by the registering authority. The additional tax is being calculated by the software and the mandatory fields to be entered in the computer are the distance covered per quarter and total number of seats.

We noticed in the additional tax payable by stage carriages covering distance of more than 4,500 kms was not worked out correctly by the system. The System did not take into account initial distance of 4,500 km for the purpose of calculating the tax. The data entry operator had to add a fixed distance to arrive at correct amount of tax as mentioned in the table-5.2.3 below:

Table-5.2.3

Actual Distance Covered	Tax calculated by the system per seat per quarter	Distance fed into the system for arriving correct amount of tax	Actual Tax payable per seat per quarter	Remarks
9,000 Kms	₹ 180	12,648Kms	₹ 326	A hit and trial method was applied by the Department and distance is increased till the amount matches with the appropriate additional tax.
7,200 Kms	₹ 108	10,848 Kms	₹ 254	

After we pointed this out, RTO, Pauri and ARTO, Rudraprayag while accepting the observation stated that the software calculates short additional tax when original distance is fed. As such the distance is increased so as to arrive at tax due. ARTO, Kotdwar has stated that the matter would be investigated and action taken under intimation to audit.

During Exit Conference, the Department while admitting the audit observation stated that the software was being modified in consultation with NIC.

We found that in ARTO Haridwar while digitising legacy data incorrect rates of taxes were fed against Air Conditioned buses. The rates of taxes was ₹ 255 per seat per month while rate of ₹ 225 per seat per month applicable to deluxe bus was incorrectly fed in four cases while in other cases the AC bus was charged ₹ 160 per seat per month as applicable to ordinary bus. This data entry error resulted in short recovery of additional tax of ₹ 0.61 lakh for five AC buses per year.

During Exit Conference, the Department, while accepting the audit observation, stated that notice would be issued and differential amount be recovered. Besides, the software would be modified accordingly after consultation with NIC.

We recommend that the Department may consider updating the tax module to ensure that correct distances are mapped into the system so as to avoid manipulation of distances by the data entry operators.

5.2.16 Non-Mapping of business rules relating to penalty in Enforcement Module

We found that the Enforcement module was in operation in the State. The Mobile squad checks the vehicle and in cases of offences, challans those vehicles (in the form PB Books) that commit an offence in Public Place. The vehicle owner is given four months' time to present his case before the concerned RTO/ARTO and in case he fails to do so, a suit is filed against the owner in a court of Law.

Though, the software module contains details of the offences mentioned in the Acts/Rules, it does not contain rates of penalty, leviable against each offence, notified by the State Government vide Notification no. 153 dated 15 July 2009. The Department prepares a 'Crime Register' manually and the offence is fed in the database. In the absence of rates of penalty being mapped, there was no transparency in levy of penalty/fine as it was being calculated manually. We also found that there was no system (like SMS alert/online connectivity on spot) under which the enforcing agencies after challan for offending vehicles on the road could send a message immediately so that the offence of the vehicle was fed in the database without any delay.

Our scrutiny of the records in three¹⁰ RTOs, four¹¹ ARTOs and one Check post at Rudrapur, revealed that in 95 cases¹² challans were issued to the offending for overloading, non production of driving license, fitness certificates, non registration of vehicles, etc. However, penalty in these cases was levied incorrectly by the concerned RTOs /ARTOs resulting in short levy of penalty of ₹ 1.33 lakh.

During Exit Conference, the Department stated in reply that revised circulars were received late by RTO/ARTOs which resulted in loss of revenue. However action was being taken for recovery.

We recommend that the Government may direct the Department for mapping of the rates of the penalty in the system and also devise a method so that the challan details are immediately sent and fed in the database of the concerned office.

5.2.17 Non-mapping of rates of additional tax payable by city bus in VAHAN

Stage carriage permit is allotted to vehicles plying on a particular route. These include vehicles plying within and outside the municipal limits. For both, the rates of additional tax are different. In case of vehicles plying on a fixed route, the

¹⁰ RTOs, Dehradun, Pauri and Nainital.

¹¹ ARTOs, Rishikesh, Haridwar, U.S.Nagar and Rudraprayag.

¹² RTOs Dehradun=13, Pauri=14, Nainital=17 ARTOs.

Rishikesh=21, Haridwar=1, U.S.Nagar=12, Rudraprayag=10 and Check Post Rudrapur=7.

distance field is mandatory for calculation of additional tax. However, for vehicles plying within municipal limits the rate of additional tax is fixed.

Our scrutiny in RTO, Pauri and Dehradun revealed that additional tax payable by the stage carriages plying in the city was being collected but there was no option in the software for calculation of additional tax for such buses. In both the units, in the absence of option for city buses, the additional tax was recovered using the option of contract carriage or Private Service vehicle permit.

During Exit Conference, the Department stated that steps would be taken for providing option of city bus in the software, after consultation with NIC.

We recommended that the software needs to be modified and option for city buses provided.

Data Accuracy

5.2.18 Short realisation of additional tax due to incorrect feeding of rates in the software

As per the provisions of Third Schedule (A) of the Uttarkhand Motor vehicles Taxation Reform Act, 2003, the rate of additional tax on goods carriages operating on hill routes shall be calculated at the rate of ₹ 210 and on plain routes at the rate of ₹ 85 per metric ton of gross vehicle weight of the vehicle or part thereof.

Our test check of database of RTO, Dehradun and ARTO, Rishikesh, revealed that while working out the additional tax of four vehicles plying on hills the option of plain instead of hill was fed in the software. This resulted in short payment of additional tax of ₹ 0.51 lakh for the period between January 2006 and September 2011.

After we pointed this out, RTO, Dehradun, while accepting the observation replied that differential amount of ₹ 0.34 lakh had been recovered in respect of three vehicles. However ARTO, Rishikesh while accepting the observation replied that the notice would be issued for recovery.

Further, in RTO, Dehradun and ARTO, Rishikesh, in case of two contract carriage vehicles less additional tax had been recovered by entering wrong option of permit resulting in short charge of additional tax of ₹ 1.46 lakh. We noticed that incorrect rate of additional tax was applied due to manual intervention in the software.

During Exit Conference, the Department stated that the incorrect rate was applied due to selection of wrong option. However the software would be modified in consultation with NIC.

We recommend that the Department may consider the provision of locking the permit option in the software for each vehicle so as to arrest such irregularities and leakage of revenue.

5.2.19 Inaccuracies in VAHAN data

The registration of the vehicles is mandatory for transport¹³ as well as non transport¹⁴ vehicles. After Departmental computerization, the data of the vehicles registered is fed in database.

Our scrutiny of the data/ records relating to the registration of the vehicles revealed the following inadequacies:

There is a basic input control check for uniqueness of the engine number and chassis number for two different vehicles in the software. If same engine or chassis number is fed for two vehicles, the computer shows a message of duplicacy.

- A test check of the data relating to the registration of the vehicles in RTO, Pauri and ARTO, Kotdwar revealed that the engine number was same as the chassis number in seventeen cases due to wrong feeding of data. On cross verification with the records/Sale letters, Form 22, stencils of these vehicles, we found it to be different. As a result, some vehicle owners are in possession of Registration Certificate (RC) with wrong chassis/engine number.
- During test check of data fed in the database in RTO, Dehradun, we noticed that 21 buses have been registered under the name of various firms but wrong ownership code as “individual” instead of “firm” has been entered in the field provided for registration of the vehicles.

Thus, the above irregularities show the lapse on the part of the supervisory level staff in verification of the data entry before its approval.

As per Form 20 (Rule 47), every purchaser of the vehicle has to submit his Permanent Account Number (PAN) at the time of registration of the vehicle. The PAN field was blank in respect of all the vehicles registered. In 92 cases the insurance cover note number was left blank. In seven cases, Form 20 had not been signed by the owner and the vehicles had been registered. In 10 cases, Form 34 (Hypothecation) was blank and bore only the seal and signatures of the financier.

All the above inaccuracies affected the correctness of the Vahan database. After we pointed this out, the units while accepting the observations replied that those had been noted for future guidance.

During Exit Conference, the Department while admitting the audit observation stated that the errors were being rectified by the concerned offices and instructions had been issued to be vigilant in future.

¹³ A transport vehicle is a vehicle which is used for commercial purpose viz; stage carrier, truck, goods vehicle etc.

¹⁴ A non transport vehicle is a vehicle used for non commercial purpose viz; motor cycle, motor car etc.

5.2.20 Manual Cash Receipts not entered in database

We noticed that whereas the computer showed the details of the amount for which the computerised receipt had been issued, the receipts which had been issued manually were not entered in the database. The details of the amount received manually as well as through computer were monitored through subsidiary and main cash book.

Hence, the system did not have the provision for entering the details of manual receipts. Thus all transactions were not being monitored by the computerised system, leaving chances for misappropriation.

During Exit Conference, the Department stated that NIC would be consulted for entering the manual receipts in the database.

We recommend that the software needs to be modified solve the problem of non-monitoring of all transactions to avoid chances of misappropriation.

Data Security

5.2.21 Absence of Validation checks in issue of fancy/choice number

As per circular (No. 821/ix/587/2007 dated 12.12.2007) any choice number reserved by the vehicle owner should not exceed one thousand numbers ahead of the last number assigned, on the date of reservation of such choice number. There is a separate module in the software as “Advance number allotment”. Fancy/choice number reserved shall be allotted to the vehicle owner and such vehicle should be presented within thirty days from the date of reservation, failing which the reservation shall be cancelled and the number shall be allotted to another person requesting for allotment, after payment of such fee as prescribed.

We noticed in two¹⁵ RTOs and four¹⁶ ARTO offices that 46 choice numbers were issued beyond one thousand numbers of the last number assigned on the date of reservation. Further, our test check of the records relating to issue of fancy/choice numbers in three¹⁷ RTOs and four¹⁸ ARTO offices revealed that twenty five fancy/choice numbers were allotted to the vehicles presented and registered after more than thirty days from the date of reservation of such numbers. The delay ranged from two to three months. In five cases, the registration number was reserved in January 2008 but the vehicles had not been produced till the date of audit i.e. August/September 2011 and no action had been initiated in this regard.

We noticed that the software was not customised for automatic cancellation of these fancy/choice registration numbers after thirty days, as required to be done as per Departmental instructions. It also did not have necessary validation check for issuance of the choice number within one thousand series of the last number assigned on the date of reservation of such number.

¹⁵ RTOs Dehradun and Pauri.

¹⁶ ARTOs Rishikesh, Haridwar, Udham Singh Nagar and Rudraprayag.

¹⁷ RTOs Dehradun, Pauri and Nainital.

¹⁸ ARTOs Rishikesh, Haridwar, Kotdwar and Rudraprayag.

During Exit Conference, the Department while admitting the observation stated that NIC would be requested to put necessary validation checks.

We recommend that the Department may customise the software for automatic cancellation of these fancy/choice registration numbers if the vehicle is not presented for registration within thirty days. Besides, validation check should be provided for issuance of the choice number within one thousand series of the last number assigned on the date of reservation of such number.

5.2.22 Transaction on Holidays

As per the existing procedure, the Transport Department does not work on Sundays and other holidays and the transactions are closed on Sundays and holidays. Our scrutiny of the data in ARTO Haridwar, revealed that in 869 cases the registration were shown as issued on second Saturdays and Sundays and even on national holiday (26 January) and 445 transactions relating to fee were made on Sundays and holidays.

During Exit Conference, the Department stated that the transactions on holidays and Sundays were made on the orders of the concerned controlling officers. However, in order to avoid any misuse, a provision in the software for noting the “authority under whose orders the office was opened” could be made. For this necessary steps would be taken after consultation with NIC.

5.2.23 Non-maintenance of database of stolen vehicles

The information relating to the vehicles registration number, chassis number, vehicle type, engine number *etc.* have to be shared by the Police Department for initiating action in the cases of theft, loss *etc.* The VAHAN software provides a module for stolen vehicles. Database of stolen vehicles is to be maintained to prevent any transaction of these vehicles till the vehicle is reclaimed as normal. Cross check of the list of the stolen vehicles provided by the Police Department, with the data fed in the computer, revealed that the units did not maintain any database of stolen vehicles.

During Exit Conference, the Department stated that the Police Department had been requested to nominate an officer so that user id could be provided to access National Register database. As soon as the officer is nominated, the user id would be provided.

The Department has thus not put in place a mechanism to receive information on stolen vehicles and have thus not implemented the existing module for stolen vehicles, in VAHAN.

SARATHI

5.2.24 Lacunae noticed in issue of driving licence

An individual desiring to obtain a driving licence is initially issued a learner’s licence after passing preliminary learner’s licence test. The data relating to the

individual is captured when the learner's licence is issued and all the subsequent transactions are monitored through the data captured. After passing the driving test, a permanent driving licence is issued.

On scrutiny of "SARATHI" software related to issuance/ renewal of driving licence, we observed that:

- In six units the learner's licence test was conducted verbally while in two units written test was being conducted. Further, in ARTO Kotdwar, applicants obtaining 50 *per cent* marks had been declared as passed whereas the minimum pass percentage is 60 *per cent* as per the CMV Rules, 1989.
- As per Circular dated 18 July 2006 from Transport Commissioner Office, maximum number of driving licences issued per working day should not exceed 50. These instructions were issued to upgrade the quality of test of driving skill keeping in view the number of accidents.

On scrutiny of the data relating to issuance of driving licence in RTO Dehradun and ARTO Haridwar, we observed that 1,62,517 and 74,807 driving licences were issued in the year 2009-10 and 2010-11 respectively. From the data it is evident that an average of 270 and 124 licences were issued per working day which defeated the objective of upgrading the quality of test of driving skill, as envisaged by the Department :

- The Department does not have a database of the cancelled driving licences of the persons involved in fatal accidents. Therefore, their details were not put on Departmental website.

On scrutiny of the manual records/files in two¹⁹ RTO and four²⁰ ARTO offices relating to the issue of driving licence, we observed that:

- in 21 cases, the form of application for licence to drive a motor vehicle (Form 4) did not bear the signature of the applicant, yet the licence had been issued;
- in 27 cases, the signature of the applicant on the application form was different from the digital one on the licence;
- in five cases, there was no photo pasted on the application form (Form-4);
- two out of five cases relating to renewal of licence where the applicants' age was above fifty years, the medical certificate required was not enclosed and the photo pasted on the medical certificate was different from the one on the licence in three cases;
- as per the CMV Rules, 1989, the consent of parent or guardian is a must in case of minors applying for a licence to drive a motor cycle without gear. In nine cases, consent certificate had not been obtained before issue of licence; and
- in 13 cases, where the driving licence had been allotted to drive Light Motor Vehicle (LMV), the registration number noted, in respect of the vehicle by which the driving test had been held was of motor cycle instead of LMV and

¹⁹ RTOs Dehradun and Pauri

²⁰ ARTOs Rishikesh, Haridwar, Udham Singh Nagar and Rudraprayag

in two cases where the licence to drive motor cycle had been issued, the registration number of the vehicle used for driving test was of LMV.

The above instances show inadequate supervisory controls of RTO officials over conducting of driving tests for learners/regular licenses; documentation and licences issued.

During Exit Conference, the Department stated that the errors had been rectified and the instructions had been issued to be vigilant and ensure that the errors did not recur. Further, 'SARATHI' software had a provision for learners' licensee test but additional hardware was required for making it operational. On the basis of budget availability, steps would be taken to make it operational with the help of NIC.

5.2.25 Other Implementation Issues

5.2.25.1 Non-renewal of fitness certificate

Section 56 of the Motor Vehicle Act, 1988 (MV Act) provides that a transport vehicle shall not be deemed to be validly registered, unless it carries a certificate of fitness issued by the prescribed authority. Further, Rule 62 of the CMV Rules 1989 provides that fitness certificate granted under the Act in respect of a newly registered transport vehicle is valid for two years and thereafter requires to be renewed every year on payment of prescribed fee.

As per the information supplied by the sampled units audited, the comparative position of transport vehicles along with fitness certificates issued is given in the table-5.2.4 below:

Table-5.2.4

Sl. No.	Name of Units	Total number of vehicles due for fitness (2007-08 to 2010-11)			Total number of vehicles for which fitness not done (2007-08 to 2010-11)		
		Heavy	Medium	Light	Heavy	Medium	Light
1.	R.T.O Dehradun	6,712	1,450	8,445	201	88	270
2.	A.R.T.O. Kotdwar	1,578	419	5,566	14	27	149
3.	A.R.T.O. Rudraprayag	141	154	1,675	10	13	94
Total		8,431	2,023	15,686	225	128	513
		26,140			866		

From the above table it is evident that out of 26,140 vehicles, fitness certificates of 866 vehicles was neither renewed nor was any action initiated against the vehicles plying without fitness. There was no structured mechanism to record and follow up the requirement of obtaining the fitness certificate.

During Exit Conference, the Department stated that the fitness fee is collected only from the owners who produced their vehicle for fitness and late fee was charged for fitness after due date. In addition to this, during on road checking, penalty was imposed on the vehicle plying without fitness certificate. The reply of the Department is not acceptable as there was no structured mechanism to record and follow up the requirement of obtaining fitness certificate.

5.2.25.2 Non-realisation of fitness fine

As per Rule 81 of CMV Rules, 1989, the fees for conducting test for grant/renewal of certificate of fitness is ₹ 200 in case of Light Motor Vehicle (LMV), ₹ 300 for Medium Motor Vehicle and ₹ 400 in case of Heavy Motor Vehicle. Further, in case of late fitness a fine equal to the fee due shall be paid as per UP Motor Vehicle Rules, 1998 (as adopted in Uttarakhand). The fitness fee as well as fine, if any, is being calculated by the software.

We noticed that the software did not show up information in 22 cases pertaining to two²¹ ARTO offices though the vehicles obtained their fitness after due date. This resulted in non realisation of fine of ₹ 7,400.

During Exit Conference, the Department, admitting the observation, stated that in case of one vehicle the amount had been recovered while in case of four vehicles notices had been served. For other vehicles also the recovery would be made.

5.2.26 Non-assignment of registration numbers to vehicles transferred from other States

Section 47 of the Motor Vehicle Act, 1988 read with Rule 54 of the Central Motor Vehicle Rules, 1989 provide that when any motor vehicle which is registered in a State, is kept in another State for a period of more than twelve months, then the owner of that vehicle, within a period and in the format prescribed by the Central Government, shall apply for registration to that Registering Authority under whose jurisdiction that vehicle plies at that time and produce the registering certificate to that Registering Authority.

The information provided by two RTOs and three ARTO units out of the sampled units relating to the assignment of registration numbers for the vehicles registered in other States and transferred to this State is given in the table-5.2.5 below:

Table-5.2.5

Sl. No	Name of Unit	Total number of vehicles due for assignment of registration number (2007-2008 to 2009-2010)			Total number of vehicles assigned with registration number (2007-2008 to 2009-2010)			Pending vehicles for assignment of new registration number (2007-2008 to 2009-2010)			Total Assignment fee for vehicles pending assignment (2007-2008 to 2009-2010) (₹ in thousand)		
		Heavy	Medium	Light	Heavy	Medium	Light	Heavy	Medium	Light	Heavy	Medium	Light
1	R.T.O. Dehradun	256	24	61	52	07	13	204	17	48	204x0.6=122.40	17x0.4=6.80	48x0.3=14.40
2	R.T.O. Nainital at Haldwani	1063	20	24	17	-	01	1046	20	23	1046x0.6=627.60	20x0.4=8.00	23x0.3=6.90
3	A.R.T.O. Rishikesh	86	02	09	25	01	06	61	01	03	61x0.6=36.60	01x0.4=0.40	03x0.3=0.90
4	A.R.T.O. Haridwar	17	12	17	08	04	05	09	08	12	09x0.6=5.40	08x0.4=3.20	12x0.3=3.60
5	A.R.T.O. Kotdwar	16	01	94	16	-	76	--	01	18	--	01x0.4=0.40	18x0.3=5.40
Total		1438	59	205	118	12	101	1320	47	104	792.00	18.80	31.20
Grand Total		1702			231			1471			842.00		

As per the above table, it is evident that out of 1,702 vehicles, only 231 vehicles were assigned new registration numbers whereas 1,471 vehicles were not

²¹ ARTOs Haridwar and Rudraprayag.

assigned new registration numbers in the State. Thus, the Department was not prompt in registering these vehicles, though they had relevant data with them, resulting in incomplete and unreliable data in Vahan, besides non realisation of revenue of ₹ 8.42 lakh for assignment fee.

The number of such vehicles, for the State as a whole, would be much more.

During Exit Conference, the Department while accepting the audit observation, stated that instructions were being issued to all the registering officers to run special drive for assigning the registration numbers of the State for transport vehicles registered in another States and transferred to this State.

5.2.27 Grant of tourist permit beyond permissible age of vehicle

As per Rule 82 (2) (a) of the CMV Rules, 1989 read with explanation below the Rule, a tourist permit shall be deemed to be invalid from the date on which the motor vehicle covered by the permit completes eight years in case of maxi cab unless the motor vehicle is replaced. The period of eight years shall be computed from the date of initial registration of the motor vehicle.

During scrutiny of the records of the Transport Commissioner office relating to issue of tourist permit to Maxi cabs, we noticed that the permits had been allotted to 18 vehicles (Maxi cabs) for a period of nine years instead of eight years as admissible.

During Exit Conference, the Department, while admitting the audit observation, stated that the permits had been cancelled in case of ten vehicles and in case of six vehicles notice had been issued. Further in order to provide a check in the software regarding the age limit of the vehicle, necessary steps would be taken in consultation with NIC.

5.2.28 Preparedness for facing adverse circumstances

- The field offices audited so far revealed that the standby server had been installed in each office so as to immediately resume the work in case of server failure due to fault or crash.
- In some field offices the antivirus had not been updated, making the system susceptible to virus attacks and corruption of data.
- In four units, including the Transport Commissioner office, the fire safety measures like fire extinguisher, fire alarm and smoke detection systems were either not in adequate number or were not in place.

During Exit Conference, the Department stated that due to lack of budget, antivirus and other security measures could not be provided earlier. After implementation of user charges budget is being provided to the offices for antivirus and other security measures.

5.2.29 Discrepancies in Manual records/statements with computerised data

The statements S4²² and S5²³ is to be sent to the Headquarter office by each field office. A cross verification of the registration data of the vehicles with the statement S4 and S5 in three²⁴ RTO and two²⁵ ARTO offices revealed that the figures shown in the statements did not tally with the data fed in the database. Thus the information generated out of the system may not be authentic and reliable.

During Exit Conference, the Department stated that the difference in the annual statement with the database was due to non feeding of backlog data in the database. However, in case of monthly statement, the Department assured that there would be no error in future.

5.2.30 Non-levy of additional tax on Industrial buses

As per section 3 of Uttarakhand Motor Vehicle Taxation Reforms Act, 2003 read with Rule 28 and 29 of Uttarakhand Motor Vehicle Taxation Reforms Rules, 2003, there is no provision for exemption of additional tax on industrial buses, i.e. additional tax is leviable.

Our scrutiny of the records in two²⁶ RTOs and one²⁷ ARTO office revealed that 27 industrial buses have been exempted from additional tax resulting in non levy of additional tax of ₹ 6.73 lakh per year.

During Exit Conference, the Department stated that out of 20 vehicles in Haridwar and Dehradun, 15 vehicles had been allotted Private Service vehicle permits, four vehicles were surrendered for which additional tax was not to be recovered and one vehicle plied under Uttarakhand Transport Corporation for which the additional tax was paid by the corporation. The reply is not correct as no exemption has been granted to industrial buses under the Act or Rules made there under. Besides, we also found that the Department had already levied additional tax on industrial buses. This indicated that there was no uniformity in levy of additional tax for such buses.

5.2.31 Short levy of Road tax on Utility vehicles

As per the provisions of Article II, Part D of the First schedule of the Uttarakhand Motor Vehicle Taxation Reform Act, 2003, vehicles plying on hire for the conveyance of limited number of passengers and the transport of a limited quantity of passenger goods, the tax is payable under Article I, Part D of the same schedule in respect of the authorized number of passenger seats in addition to tax for every metric ton of the vehicle or part thereof.

²² A monthly statement depicting total number of vehicles registered in a month.

²³ An annual statement depicting progressive total of registered vehicles ending that year.

²⁴ RTOs Dehradun, Pauri and Nainital.

²⁵ ARTOs Rishikesh and Haridwar.

²⁶ RTOs Dehradun and Nainital.

²⁷ ARTO Haridwar.

Our test check of the software in two²⁸ RTOs and five²⁹ ARTOs revealed that road tax was incorrectly levied at the rate of ₹ 255 instead of ₹ 365 per vehicle per quarter on 1377 vehicles³⁰ resulting in short realisation of road tax of ₹ 6.06 lakh per year.

During Exit Conference the Department stated that necessary changes in the software for calculation of tax and additional tax, as per provisions of the Uttarakhand Motor Vehicles Taxation Reform Act, 2003, would be made in consultation with NIC.

5.2.32 Short levy of one time Road tax on Private vehicles

As per Part B of First Schedule of the Uttarakhand Motor Vehicle Taxation Reform Act, 2003, one time road tax in case of private vehicles shall be calculated at the rate of 2.5 *per cent* of the value of the vehicle. The tax is levied on the value shown in the sale invoice.

Our test check of the records in RTO Pauri and ARTO, Kotdwar revealed short charge of one time road tax in case of 23 vehicles, as the amount of VAT shown in the sale invoice was not taken while feeding the value of the vehicle in the fields provided in the module for registration. This resulted in under charge of one time road tax of ₹ 0.20 lakh in respect of these vehicles.

During Exit Conference, the Department, admitting the audit objection, stated that recovery from two vehicles had been made by ARTO, Kotdwar and notices were being issued by RTO, Pauri for recovery.

5.2.33 Misclassification in registration of vehicles

Section 4(2) of the Uttarakhand Motor Vehicle Taxation Reforms Act, 2003 provides that no transport vehicle shall be used in any public place unless a tax at the rates applicable to such motor vehicle, as specified in Part D of the First Schedule has been paid in respect thereof. Further, Private Service vehicles are those that carry more than six persons ordinarily used by or on behalf of the owner of such vehicle in connection with his trade or business otherwise than for the hire or reward but does not include a motor vehicle used for public purpose. These fall within the definition of transport vehicle.

Our test check of the Private Service Vehicle Permits of seven vehicles in RTO Nainital and ARTOs Haridwar and Udham Singh Nagar revealed that vehicles were incorrectly classified as non-transport vehicle and were charged one time road tax, when these were required to be registered as transport vehicles and were liable to pay quarterly road tax and monthly additional tax. Misclassification in registering these vehicles resulted in non levy of Road tax of ₹ 1.19 lakh and additional tax of ₹ 5.78 lakh.

²⁸ RTOs Dehradun and Pauri.

²⁹ ARTOs Rishikesh, Haridwar, U.S.Nagar, Kotdwar and Rudraprayag.

³⁰ RTOs Dehradun=1027, Pauri=62, ARTOs Rishikesh=183, Haridwar=34, U.S.Nagar=13, Kotdwar=30 and Rudraprayag=28.

During Exit Conference, the Department stated that all the RTO/ARTOs were being instructed that Private service vehicles would not be charged with one time road tax.

5.2.34 Conclusion

Though the computerisation through Vahan and Sarathi Application Systems has been completed in the Department over the period 2003-2010 but the backlog of the data relating to registrations of vehicles (25-30 *per cent*) and licences (80-90 *per cent*) issued prior to computerisation was not completed which defeated the purpose of having a complete database of all the licences issued and registrations made. In this way, the status of State Consolidation Register (SCR) and State Register (SR) is incomplete to that extent. Computerisation of Check Posts could not be done. The intended objectives of computerisation of RTO and ARTO offices could not be achieved in full due to absence of the interlinking of field offices and the Headquarters' office. The mapping of Business Taxation Rules was not ensured in the Vahan software due to which taxes on city buses, trade certificate and Accident Relief Fund were not collected. Various software deficiencies necessitated manual interventions particularly in calculation of taxes. Misclassification in registration of vehicles led to non levy of road tax and additional tax. Taxes/Fees collected manually were not entered in the computerised database leaving it vulnerable to misappropriation. Due to wrong feeding of data, some vehicle owners were in possession of Registration Certificates with wrong chassis/engine numbers. In some cases, wrong ownership code as "individual" instead of "firm" has been entered in the field provided for registration of vehicles. The maximum number of driving licences issued should not exceed 50 in a day but the average number of driving licences issued in a day touched even 270 which compromised the quality of test of driving skill. The Department could not utilise the system to exercise the control on the issue of fancy/choice numbers. Cross check of list of stolen vehicles provided by the Police Department, with the data fed in the computer, revealed that the units did not maintain any database of stolen vehicles in absence of any coordination mechanism. Besides, there were cases of short charge of penalty in challans of offending vehicles, non-renewal/non-realisation of fitness certificate/fitness fine, non-assignment of registration numbers to vehicles transferred from other States and grant of tourist permit beyond permissible age of vehicles. The internal controls within the Department were weak as evidenced by absence of an internal IT audit wing. Efforts were not made to develop technical expertise within the Department to handle database administration.

5.2.35 Recommendations

The Government may consider implementation of the following recommendations for rectifying the system and other issues:

- feeding of backlog data entry of old registrations and licences for a complete database for State Register and National Register;

- develop the modules in the software for city buses, trade certificate and Accident Relief Fund;
- ensure the internal/IT audit inspection and strengthening the internal control at various levels to ensure data completeness and correctness;
- undertake the training of the staff on priority basis which would reduce dependency on the outsourcing agency and will be in the interest of data integrity;
- updating the tax module to ensure that correct distances are mapped into the system so as to avoid manipulation of distances by the data entry operators;
- interlinking of the field offices and the Headquarter office and to provide link to the Police Department to prevent transactions relating to stolen vehicles;
- the rates of penalty in the system should be mapped and the challan details should be immediately sent to the concerned offices and fed in the database for correct imposition of penalty;
- provision of locking the permit option in the software may be introduced so as to arrest irregularity of wrong option of permit and prevent consequential leakage of revenue;
- customise the software for automatic cancellation of the fancy/choice registration numbers if the vehicle is not presented within thirty days and provide necessary validation checks in the software to arrest irregularities related to issue of such numbers;
- ensure entries in database of manual cash receipts; and
- issue the driving licences within the prescribed limit of 50 per day to upgrade the quality of test of driving skills keeping in view the number of accidents.

COMMERCIAL TAX DEPARTMENT

5.3 Performance Audit on “Cross Verification of Declaration Forms in Inter State Trade and Commerce”

Highlights

- ❖ *The Department did not issue the statutory forms serially which may lead to their misuse and loss of revenue.*

[Paragraph 5.3.9.1]

- ❖ *The application software module, provided for filing of returns, could be made operational only in 2009-10, which resulted in non-feeding of returns prior to this period. The module for issuance of forms is yet to be operationalised fully. The computerisation of the Check Posts and their interlinking with offices has not been completed.*

[Paragraph 5.3.9.2]

- ❖ *Due to partial operationalisation of software modules in TINXSYS, the forms relevant to Inter State transactions are not being uploaded at the Central server, thereby hampering the cross verification process.*

[Paragraph 5.3.9.3]

- ❖ *The Department had no independent Internal Audit Wing and no internal audit of assessments was done during the period 2007-10.*

[Paragraph 5.3.9.5]

- ❖ *On scrutiny of verification results, we observed that two selling dealers of the State claimed exemption on ‘C’ forms which were not found to be issued to the corresponding purchasing dealers. The tax involved on these fake forms was ₹6.78 lakh, besides penalty leviable.*

[Paragraph 5.3.9.6]

- ❖ *Irregular concession/exemption was granted on photocopies of 14 ‘C’ and 15 ‘F’ forms. The tax involved in these irregular concessions/ exemptions was ₹17.39 lakh.*

[Paragraph 5.3.9.7]

- ❖ *Irregular concession/exemption was allowed on ‘C’ forms covering transaction for more than one quarter, and on ‘F’ forms covering transaction for more than one calendar month. The tax involved in these irregular concessions/exemptions was ₹1.27 lakh.*

[Paragraph 5.3.9.8]

- ❖ *Irregular concession was granted on purchase of goods, not covered in the Registration Certificate. This resulted in non-imposition of penalty of ₹10.16 lakh.*

[Paragraph 5.3.9.9]

5.3.1 Introduction

The Central Sales Tax Act, 1956 (CST Act) read with the Central Sales Tax (Registration and Turnover) Rules, 1957 (CST Rules), CST (Amendment) Act, 1972 and the UP Trade Tax Act and Rules, 1948 as adopted by the Uttarakhand Government and CST Rules of Uttarakhand, 2006, stipulate that every dealer who in Inter State trade sells to a registered dealer, goods specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax of four *per cent* up to March, 2007, three *per cent* from April, 2007 to May, 2008 and two *per cent* from June, 2008 if such purchases are supported by declarations in Form 'C'. Transfer of goods claimed otherwise than by way of sale made by a registered dealer to any other place of business located outside the State is exempt from tax on production of prescribed declarations in Form 'F'. The Rules place considerable responsibility with regard to the safe custody and maintenance of accounts of the use of the declaration forms. To safeguard against the misuse of declaration forms, the Rules and Departmental Circulars provide for imposition of penalties.

The purpose of the Performance Audit is to assess whether the concessions and exemptions claimed on declaration forms have been correctly allowed by the Commercial Tax Department of the State of Uttarakhand.

5.3.2 Organisational Set up

The Commercial Tax Department in the State of Uttarakhand is divided into two zones viz. Kumaon and Garhwal with headquarters at Rudrapur and Dehradun respectively. There are four regions in these two zones. Under these four regions there are 21 Deputy Commissioners (Assessment) and 43 Assistant Commissioners (Assessment) as of March 2010. Besides, there are Check Posts and Trade Tax Offices as well. Overall control of the Department vests with the Commissioner, Commercial Tax with Headquarters at Dehradun.

5.3.3 Audit Objectives

The objectives of this Performance Audit are to:

- evaluate the adequacy, reliability and effectiveness of the system of receipt, issue and use of statutory forms;
- ascertain whether exemption/concession granted by the assessing authority was supported by original declaration forms;
- ascertain whether there is a system of cross verification for ascertaining genuineness of the forms for preventing evasion of tax;
- analyse the system of uploading the particulars in the TINXSYS website and the data available for verifying the correctness of forms;
- ascertain whether appropriate steps are taken on receipt and detection of fake, invalid and defective (without proper or insufficient details) forms and
- assess whether effective and adequate internal control mechanism existed in the Department.

5.3.4 Audit Criteria

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

- Central Sales Tax Act, 1956;
- Central Sales Tax (Registration and Turnover) Rules, 1957;
- Central Sales Tax (Amendment) Act, 1972;
- Uttar Pradesh Trade Tax Act and Rules, 1948 as adopted by the Uttarakhand Government;
- Central Sales Tax Rules of Uttarakhand, 2006 and
- Departmental Manuals/Notifications.

5.3.5 Scope of audit and methodology

With a view to evaluate the extent of compliance with the provisions, system of operation, effectiveness and efficiency of verification of declaration forms, a Performance Audit was conducted from November, 2010 to January 2011. For this purpose, a test check of the assessment records of three Deputy Commissioners(Assessment) and seven Assistant Commissioners (Assessment) covering all assessments made in respect of Inter State trade during the period from assessment years 2004-05 to 2006-07, completed during the financial period 2007-08 to 2009-10, was carried out.

We received 862 'C' and 305 'F' forms from our Accountant General offices of other States for cross verification. We verified 701 'C' and 235 'F' forms, and we sent 79 'C' and 50 'F' forms for cross verification to AG offices of other States, of which results of verification of 56 'C' and 38 'F' forms were received by us. Results of such cross verification are mentioned in this Report.

5.3.6 Acknowledgement

Before the commencement of the Performance Audit an entry conference was held on 15 November 2010 with the Additional Commissioner (Admn.) and Deputy Commissioner, Commercial Tax (Hqtr) wherein the audit objectives and scope of audit were discussed. The Exit Conference of the Performance Audit has not taken place (November, 2011).

5.3.7 Trend of Revenue

The tax collection position of Central Sales Tax for the period from 2007-08 to 2009-10 along with the growth rate has been given in the table-5.3.1 below:

Table-5.3.1		(₹ in crore)
Year	Collection of Revenue (CST)	Growth
2007-08	132.63	(-) 6.84*
2008-09	168.24	26.85
2009-10	262.51	56.03

* Total Revenue (CST) for 2006-07 being ₹ 142.37 crore.

It is evident from the above table that CST receipts increased by 56.03 per cent in 2009-10 over the previous year.

5.3.8 Manpower management

The sanctioned strength *vis-a-vis* effective strength of the Commercial Tax Department for the period from 2007-08 to 2009-10 is given in the table-5.3.2 below:

Table-5.3.2

Cadre	Sanctioned Strength			Men in Position			Shortage		
	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
Gr A	56	56	57	24	26	33	32	30	24
Gr B	294	294	294	155	148	199	139	146	95
Gr C	987	989	989	339	387	410	648	602	579
Total	1337	1339	1340	518	561	642	819 (61 %)	778 (58 %)	698 (52 %)

We, on scrutiny, observed that the assessments up to the assessment year 2005-06 have been completed by the Department and the assessments for the year 2006-07 were in progress as of March, 2010. The time limit for its completion was extended up to June, 2010. The man power shortages have adversely impacted the Department as evident from the backlog in CST assessments.

5.3.9 Audit findings

System Deficiencies

5.3.9.1 System of receipt, issue and use of statutory forms

All statutory forms are printed through private press for which tenders are invited by the Department. After printing, these forms are received by the stores of the headquarters office of the Department. From the stores the forms are issued to the Joint Commissioners as per their requirement. The Joint Commissioners further issue these forms to the assessing authorities i.e. Deputy Commissioners and Assistant Commissioners based on indents.

Statutory forms are obtainable by registered dealers from the assessing authorities, after a payment of such amount i.e., a fee fixed by the Department from time to time. Two registers are maintained by the assessing authorities in a prescribed format - one to keep an account of the forms received from the Joint Commissioner's office and their issue to various dealers and the other to keep a dealer wise account of forms issued and used by the dealers along with details of fee paid for these forms.

It is incumbent upon the Department to ensure proper receipt, custody and issue of these forms to avoid any possibility of misuse leading to leakage of revenue. It is important that all authorities involved with the issue of forms ensure that these are issued serially so that any manipulation or misuse can be avoided. The CST Rules of Uttarakhand also place considerable responsibility on the dealers with regard to the safe custody and maintenance of accounts of the use of these forms.

Rule 8 (14) &(15) of the CST (UK) Rules, 2006 provides that the Commissioner may, declare forms of a particular series, design or colour as obsolete and invalid with effect from such dates as he may specify and may substitute in their place forms of different series, design or colour and all dealers shall, on or before the date specified by the Commissioner therein surrender all unused forms which may be in their possession, and obtain in exchange such new forms as may be

substituted in their place. Further Section 58 (XXIX) of the Act provides that if a dealer issues or furnishes a false or wrong form of declaration or certificate by reason of which a tax on sale or purchase ceases to be leviable under this Act or the rules made there under, he shall pay, by way of penalty, a sum not exceeding forty *per cent* of value of goods involved or three times tax leviable on such goods under the provision of this Act, whichever is higher.

Our scrutiny of the records and other information and documents relating to the forms revealed the following:

During scrutiny of the Headquarter's form 'C' issue register, we noticed that 5000 forms bearing serial No: 140001 to 145000 pertaining to series VAT UA/DT-06 were issued on 23.April 2007 to Joint Commissioner, Kashipur, and thereafter instead of issuing form 'C' of the same series, 20000 forms of a different series UK VAT /C 2007 (Serial No 00001 to 20000) were issued on 9 May 2007. Forms of old series from Serial No 145001 to 150000 (5000 forms) were not issued by the Department for more than three years i.e. up to the date of audit. Non- issuance of forms serially defeats the control mechanism and may lead to misuse and evasion of tax.

After we pointed this out, the Department, while accepting the audit observation, stated that the said forms were in stock and would be issued (January, 2011).

The Department notified (November, 2006) that a particular series of Form 'C' which was in vogue, was declared as invalid after 31 December, 2006 and the forms were not to be issued either by the Department or the dealer after such date.

However, scrutiny of form issue register of AC(A), Kotdwara and AC(A)-II Dehradun, revealed that 1303 (303 + 1000) form 'C' of the series declared as invalid were issued by the Department to 166 (50 +116) dealers for the period from January 2007 to March 2007.

After we pointed this out, the units stated that the matter would be looked into and action would be intimated.

Similarly, scrutiny of the records of one DC (A) and two AC (A), as indicated in the table-5.3.3 below revealed that the assessing authorities issued form 'C' to the dealers before the date of its invalidation but the dealers instead of replacing the invalid forms with valid ones issued 640 forms amounting to ₹ 34.42 crore to other dealers after the date the forms were declared as invalid.

Table-5.3.3

(₹in crore)

Name of the Assessing Authority	Total no of dealers issuing invalid forms	Total no of invalid forms issued	Total amount for which the forms have been issued	Penalty to be imposed
Deputy Commissioner(A)-I Kashipur	10	516	32.86	13.14
Assistant Commissioner(A)-II Haldwani	5	20	0.13	0.05
Assistant Commissioner(A) Ramnagar	11	104	1.43	0.57
Total	26	640	34.42	13.76

The assessing authority has not pointed out the irregularity while assessing the cases of these dealers.

On scrutiny of the 'form issue register' of the units audited, we observed that though receipts and issues were accurately recorded in the books, the receipt of forms by the dealers was required to be attested by a witness but this requirement was not adhered to.

After we pointed this out, the units replied that the observation had been noted and would be complied with in future.

We recommend that the Department maintains a clear position of Declaration forms printed, forms issued during a particular period and forms available at a particular date. Issue register of declaration forms may be maintained properly showing clearly opening balance, receipt, issue, closing balance etc. and forms should be issued chronologically. The Assessing Authorities be advised to be vigilant in disallowing forms declared as invalid.

5.3.9.2 Computerisation of the Commercial Tax Department

The application software of the Department was developed by the National Informatics Centre (NIC) – Uttarakhand State Unit. Four modules have been developed – Dealer database, Registration, Returns and Forms.

On scrutiny, we noticed the following deficiencies:

- The module, provided for filing of returns, could be made operational only in 2009-10, which resulted in non feeding of returns prior to this period. Even in the cases where returns were being fed into the system, the documents attached with the returns i.e. purchase and sales list of the dealers were not being fed in the database, which narrows down the scope for checking the authenticity of the claims through cross-verification.
- The module provided for issue of forms is yet to be fully operationalised as only issue of Form 16, i.e. Form of declaration for import is being carried out.
- There is no in-built mechanism in the software for detection of late payment of tax and calculation of interest thereon.

The Computerisation of the Check Posts and their linking is an essential tool to cross-verify the credit claims and ensure the authenticity of correct payment of tax by the dealers involved in Inter State trade. However, it has been observed that interlinking of the offices and Check Posts has not been completed.

Year-wise allocation of budget for computerisation during 2007-08 to 2009-10 is indicated in the table-5.3.4 below:

Year	Budget Allocations	Utilisation	Surrendered	Diverted
2007-08	400.00	13.42	249.76	136.81
2008-09	400.00	81.62	188.33	130.00
2009-10	200.00	62.91	08.09	129.00

It is evident from the table that out of ₹ 10 crore allocated during the period 2007-10, only ₹ 1.58 crore, a mere 15.80 *per cent* of budget allotted was utilised for computerisation. The remaining amount was either surrendered or diverted. Despite availability of funds, the interlinking of the offices and Check Posts has not been completed.

5.3.9.3 Uploading data on TINXSYS

TINXSYS (Taxation Information Exchange System), a database on inter State dealers, is intended to serve as a centralised repository of all Inter State transactions. The information available in TINXSYS can be used for verification of the central statutory forms issued by other State Taxation Departments and submitted by the dealers in support of the claim for concessions/exemptions.

However, due to partial operationalisation of software modules, the forms relevant to Inter State transactions are not being uploaded at the central server, thereby hampering the cross verification process.

After we pointed this out, the Department replied that the TINXSYS programme was initially started with the aim of verification of Inter State transactions covered with Declaration forms. This programme did not respond as per the expectations and hence was discontinued.

We recommend that the Department may upload the dealers' details and forms issued to the dealers on the TINXSYS website and utilise the website for cross verification purposes.

5.3.9.4 Database of dubious/risky dealers

To prevent evasion of tax, a database of dubious dealers needs to be prepared based on their past history on fraud/concealment/usage of fake forms and updated at regular intervals. The database should be made online in the Department's website/TINXSYS, which will facilitate a watch on the dealers. Our scrutiny revealed that a database of dubious/risky dealers was not prepared by the Department.

5.3.9.5 Adequacy of Internal Control Mechanism

Internal Control System

Proper control over the receipt, custody and issue of statutory forms is the key to avoid misuse of these forms. Instances of defective system of issue of forms have been noticed by us as indicated in above paragraphs. Further no system for conducting physical verification of the forms existed up to 2009-10. However the physical verification was conducted by the Department in April, 2010 after being pointed out during earlier Performance Audit.

Internal Audit

Internal Audit is an important tool of internal control. In the context of Commercial Tax Department, periodic check of assessment orders and other functional aspects relating to the custody and issue of statutory forms can help

detect loss or leakage of revenue due to inaccurate or incorrect application of rules or misuse of forms. We noticed that there existed no Internal Audit system. For the period from 2007-08 to 2009-2010 (during which the assessments of 2004-05 to 2006-07 were done) no Internal Audit was conducted by the Department. The Commercial Tax Department has no independent Internal Audit Wing.

We recommend that a separate Internal Audit Wing may be introduced in the Department to strengthen the internal control mechanism.

Compliance Deficiencies

5.3.9.6 Cross verification of Declaration forms-Fake forms

Section 8(4) of the CST Act, provides that the Inter State sales to registered dealers are taxable at the concessional rate/exempted when such sales are supported by a declaration form. Further, if a dealer issues or furnishes a false declaration, he shall be liable to a penalty.

On scrutiny, we observed that the Department has not installed any mechanism for cross verification of declaration forms before allowing exemption/ concession. From the verification results, we observed that two selling dealers of Uttarakhand claimed exemption on 'C' forms which were not found to be issued to the corresponding purchasing dealers of Delhi and Maharashtra by their Sales Tax Departments. The dealers need to be issued notices for cross verifying this information and recovery of taxes of ₹ 6.78 lakh. Besides, penalty is leviable on the forms being established as fake.

5.3.9.7 Irregular grant of concession/exemption on photocopies of Declaration forms

5.3.9.7.1 Acceptance of photocopies of 'C' forms

Scrutiny of the records of DC (A) I, Kashipur revealed that the assessing authority allowed concessional rate of tax on Inter State sales of ₹ 1.04 crore, on the basis of photocopies of 14 'C' forms, without any mention in the assessment order for the year 2005-06, as to why concession was allowed on the basis of photocopy of forms. Grant of concession on photocopies of the statutory forms by the assessing authority was irregular. Action be taken to obtain original 'C' forms failing which taxes of ₹ 7.80 lakh be recovered.

5.3.9.7.2 Acceptance of photocopies of 'F' forms

Our scrutiny of the records of DC(A) I, Kashipur revealed that the exemption on stock transfer of ₹ 95.92 lakh in case of one dealer was allowed by the assessing authority on the basis of photocopies of 15 'F' forms. Action be taken to obtain original 'F' forms failing which taxes of ₹ 9.59 lakh be recovered.

After we pointed this out, the units replied that the matter would be looked into and comments intimated to audit.

5.3.9.8 Acceptance of invalid forms

5.3.9.8.1 Form 'C'

Under section 8(4) of the CST Act, read with Rule 12(1) of the CST (R&T) Rules, a dealer can claim concession on payment of tax on Inter State sale by furnishing a declaration in form 'C' provided that a single declaration may cover all transaction of sale, which take place in a quarter of a financial year between the same two dealers.

Our scrutiny of the records of DC(A)-I, Kashipur and AC(A)-I, Rudrapur revealed that concession was allowed on taxable turnover of ₹ 23.01 lakh on the basis of form 'C' covering transaction for more than one quarter. The acceptance of declaration form covering transaction for more than one quarter was against the provisions of the Act and transaction beyond single quarter (₹ 6.92 lakh) should have been rejected. This involved short levy of tax of ₹ 0.67 lakh.

After we pointed this out, the unit replied that the matter would be looked into and necessary action would be taken.

5.3.9.8.2 Form 'F'

Under section 6(A) 1 of the CST Act read with Rule 12(5) of CST (R&T) Rules, a dealer can claim exemption on payment of tax on stock transfer by furnishing a declaration in form 'F', provided that a single declaration form may cover the transaction effected during a period of one calendar month.

Our scrutiny of the records of AC(A)-I, Rudrapur revealed that exemption was allowed on taxable turnover of ₹ 21.97 lakh on the basis of declaration forms covering transaction for more than one calendar month. Acceptance of declaration forms covering transaction for more than one calendar month was against the provisions of the Act and transaction beyond a month (₹ 7.47 lakh) should have been rejected. This involved under assessment of tax of ₹ 0.60 lakh.

After we pointed this out, the unit replied that the matter would be looked into and necessary action would be taken.

5.3.9.9 Irregular concession on purchase of goods, not covered in the Registration Certificate

Section 10(b) read with Section 10 A(1) of the CST Act, provides that if any registered dealer, falsely represents, when purchasing any class of goods, that the goods of such class are covered by his certificate of registration, the authority who granted him, or as the case may be, is competent to grant to him a certificate of registration under this Act, may after giving him a reasonable opportunity of being heard, by order in writing, impose upon him by way of penalty a sum not exceeding one and a half times the tax which would have been levied under sub section (2) of Section 8 in respect of the sale to him of the goods, if the sale had been a sale falling within that sub section.

Our test check of records of three assessing authorities as indicated in the table below revealed that three dealers were issued Form 'C' amounting to ₹ 60.23 lakh for purchase of goods, not covered by the Registration Certificate. The goods

purchased were neither declared in Registration Certificate, nor got added to it. As such the forms should have been disallowed. This resulted in non-imposition of penalty of ₹ 10.16 lakh as shown in the table-5.3.5 below:

Table-5.3.5

(₹ in lakh)

Sl. No	Name of Unit	Name of Dealer/AY	Amount	Commodity for which form C issued but not covered by the registration certificate	Tax Rate	Tax	Penalty
1.	D.C.(A)-I C.T. Kashipur	M/sAjanta Traders Kashipur (2005-06)	23.47	Tooth brush, Perfume, ice cream cone	12.5%	2.93	4.40
2.	A.C. (A) -I Rudrapur	Murliwalah Agro Tech Pant Nagar (2005-06)	0.37 12.13	Computer, transformer	4% 12.5%	0.01 1.52	0.02 2.28
3.	D.C.(A)-II, Kashipur	M/s Manokamna Steels, Pvt. Ltd. Bajpur	5.97 18.29	Building material Weighing Bridge Transformers	8% 10%	0.48 1.83	3.46

After we pointed this out, the units stated that the matter would be looked into and action taken would be intimated.

5.3.9.10 Acceptance of defective forms

Section 8 (4) (a) of the CST Act, stipulates that the provisions of sub section (1) shall not apply to any sale in the course of Inter State trade or commerce unless the dealer selling the goods furnishes to the prescribed authority in the prescribed manner a declaration duly filled and signed by the registered dealer to whom the goods are sold containing the prescribed particulars in a prescribed form obtained from the prescribed authority. The purpose of this stipulation is to ensure the genuineness of the claims on which concessional rate of tax is granted.

On scrutiny of assessment records of DC(A)-II, Rudrapur and AC(A)-I, Rudrapur, in case of two dealers, we observed that concessional rate of tax on 12 forms 'C' valued at ₹ 3.86 crore was allowed by the assessing authority, though forms produced in support of the sales were incomplete so much so that they did not contain the seller's name, registration number of the purchasing dealer, date of issue by the purchasing dealer. In case of four forms, it was not even depicted as to which assessing authority issued these forms. The assessing authority is required to ensure that concessional rate of tax is allowed only on the basis of genuine and valid statutory forms issued by the respective assessing authority of the issuing State.

We recommend that the Department may ascertain the genuineness of the transactions covered by these incomplete forms and consequential tax liability, if any, may also be ascertained.

5.3.10 Conclusion

The Department did not issue the statutory forms serially which may lead to their misuse and loss of revenue. The forms relevant to Inter State transactions are not being uploaded at the Central server due to partial operationalisation of software modules in TINXSYS website, thereby hampering the cross verification process both for the Department and other State Sales Tax Departments.

Concession/exemption on declaration forms were allowed without ascertaining the genuineness of these declaration forms through cross verification. The acceptance of the defective forms was irregular and taxes due were not recovered, nor penal provisions invoked. Non existence of Internal Audit wing resulted in weak internal control mechanism in the Department.

5.3.11 Recommendations

The Government may consider implementation of the following recommendations for rectifying the system and compliance issues:

- a clear position of declaration forms printed, forms issued during a particular period and forms available at a particular date should be maintained.
- Issue register of declaration forms may be maintained properly showing clearly opening balance, receipt, issue, closing balance etc. and forms should be issued chronologically;
- dealers' details and forms issued to the dealers may be uploaded on the TINXSYS website and the website may be utilised for cross verification purposes;
- a system needs to be devised and linkages established for periodic cross verification of statutory forms on test check basis from the assessment records of the issuing State;
- an element of deterrence needs to be introduced by way of strict and rigorous imposition of penalties on persistent defaulters;
- it may be ensured that concession/exemption is allowed only on production of declaration forms, fulfilling all the conditions specified therein;
- assessments under CST Act are finalised in time and
- a separate Internal Audit Wing may be introduced in the Department to strengthen the internal control mechanism.

Audit of Transactions

COMMERCIAL TAX DEPARTMENT

5.4 Short assessment of tax

A dealer was reassessed for showing abnormal loss on sale of Inter State purchases leading to additional tax liability of ₹ 11.08 lakh.

Section-21(1) of the U.P. Trade Tax Act, 1948 provides that if the Assessing Authority has reason to believe that the whole or any part of the turnover of a dealer, for any assessment year or part thereof, has escaped assessment to tax or has been under-assessed or has been assessed to tax at a rate lower than that at which it is assessable under this Act, or any deductions or exemptions have been wrongly allowed in respect thereof, the assessing authority may, after issuing notice to the dealer and making such inquiry, as it may consider necessary, assess or reassess the dealer to tax according to law. The Uttarakhand VAT Act, 2005 was applicable to State from 1 October 2005.

On scrutiny of records (March, 2009) of the Deputy Commissioner (Assessment)-V, Dehradun, we observed that a dealer³¹ for the assessment year 2003-04 assessed during 2007-08 had paid tax of ₹ 5.04 lakh as per details of his trading Account given in the table-5.4.1 below:

Table-5.4.1

Item of Goods	Opening Balance (₹)	Purchase during the year (₹)	Closing Balance (₹)	Sale during the year (₹)	Profit/Loss (in per cent)
Purchases within State					
Aqua guards	10,98,419	1,78,32,306	20,42,124	3,41,33,868	102% Profit
Vacuum Cleaners	58,496	56,10,982	3,68,895	1,17,84,111	122% Profit
Purchases from other States					
Aqua guards	42,15,194	60,36,802	2,66,270	42,60,053	57 % Loss
Vacuum Cleaners	15,48,793	16,19,538	2,97,273	6,46,675	77 % Loss

It is evident from the above details that the firm showed a profit of 102 *per cent* and 122 *per cent* on the sale of aqua-guards and vacuum cleaners respectively, which were purchased within the State. At the same time, 57 *per cent* and 77 *per cent* loss was shown on sale of the same goods purchased from outside the State. We observed that since the sale of goods purchased within the State is not taxable, the dealer showed a huge profit on the sale of goods purchased within State so that the loss shown on the sale of goods purchased from outside State could be compensated in the account, against the Inter State sale profits.

On this methodology for evasion of tax being pointed out, the Assessing Authority, issued a notice (13.5.2010) to the dealer under the Act by reassessing minimum profit of 20 *per cent* on the sale of aqua-guards and vacuum cleaners purchased from out side the State as per details given in the table-5.4.2 below:

Table-5.4.2

Item of Goods	Opening balance (₹)	Purchase (₹)	Closing Stock (₹)	Balance (₹)	Profit @ of 20% (₹)	Sale (₹)	Tax ³² (₹)
Aqua guards	42,15,194	60,36,802	2,66,270	99,85,726	19,97,145	1,19,82,871	11,98,287
Vacuum Cleaners	15,48,793	16,19,538	2,97,273	28,71,058	5,74,211	34,45,269	4,13,432
Total							16,11,719

³¹ Eureka Forbes Ltd; Astley Hall, Dehradun.

³² Applicable rate of tax on Aqua-guards and Vacuum cleaners was 10 *per cent* and 12 *per cent* respectively.

No reply was furnished by the dealer within the stipulated time; hence, it was presumed that the dealer had no objection on the reassessment made by the Assessing Authority. Thereafter, the Assessing Authority levied tax for ₹ 16.12 lakh and issued (May, 2010) a demand notice to the dealer for additional tax liability of ₹ 11.08 lakh. However, a report on recovery of the pending tax had not been received (November, 2011).

The matter was referred to the Government (July, 2011); reply was awaited (November, 2011).

STATE EXCISE DEPARTMENT

5.5 Loss of revenue

Low production of alcohol from fermentable sugar content of molasses against the prescribed norms resulted in loss of revenue of ₹ 91.62 lakh.

The Uttarakhand Excise Manual (Vol-I) provides that every quintal of fermentable sugar content present in molasses shall yield minimum 52.5 alcoholic litre (AL) of alcohol. For this purpose, composite samples of molasses are required to be drawn by the officer in charge of the distillery and sent for examination to the alcohol Technologist/Chemical Examiner. Failure to maintain the minimum yield of alcohol from molasses entails, in addition to imposition of penalty, cancellation of license of the distillery and forfeiture of security deposit.

We saw during the scrutiny of records (February, 2011) of the Officer In-charge Excise (OICE), Bajpur Distillery Bajpur, Udham Singh Nagar that there was a ratio of 1:70 between non-potable and potable alcohol produced during the year 2009-10 and only country made liquor was produced under potable alcohol. Our scrutiny of nine cases of composite samples drawn in May 2009 and December 2009 revealed that 593715.70 AL was extracted from 11979.61 quintal of fermentable sugar against a minimum of 628929.99 AL as per the norms. Thus, the production of alcohol was lower than the norms by 35214.29 AL and was 49.56 AL against the prescribed minimum of 52.5 AL per quintal of fermentable sugar content. Considering the ratio of non-potable and potable alcohol (Country made liquor) produced by the distillery, the country made liquor would have been produced to the extent of 96438 Bulk Litre³³ out of 34718 AL. This shortfall in production, against the norms resulted in loss of revenue of ₹ 91.62 lakh³⁴ to the Government.

After we pointed this out, the OICE of the Distillery replied that in cases of low production of alcohol the matter would be taken up with the Commissioner of State Excise, Uttarakhand. The reply is silent on action taken by the officer in charge at the Distillery on the samples drawn and shortfall in production as per norms.

The matter was referred to the Government (July 2011); reply was awaited (November 2011).

³³ ALx100/Strength = BL where strength is 36 V/V.

³⁴ 96438 BL x ₹ 95 (applicable rate of Excise duty for the year).