

Chapter IV

Revenue Sector

CHAPTER IV REVENUE SECTOR

4.1 Trend of Revenue Receipts

4.1.1 The tax and non-tax revenue raised by the Government of Manipur during the year 2014-15, the State's share of net proceeds of Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table No. 4.1.1** below.

Table No. 4.1.1 Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue raised by the State Government					
	• Tax revenue	267.05	368.07	332.83	472.73	516.83
	• Non-tax revenue	259.88	311.53	231.78	260.67	183.73
	Total:	526.93	679.60	564.61	733.40	700.56
2	Receipts from the Government of India					
	• State's share of net proceeds of Union taxes	990.57	1154.03	1317.83	1438.79 ¹	1526.89 ¹
	• Grants-in-aid	3912.44	3819.92	4937.32	5110.60	5770.82
	Total:	4903.01	4973.95	6255.15	6549.39	7297.71
3	Total receipts of State Government (1 & 2)	5429.94	5653.55	6819.76	7282.79	7998.27
	Percentage of 1 to 3	10	12	8	10	9

(Source: Finance Accounts)

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 700.56 crore) was nine *per cent* of the total revenue receipts of ₹ 7998.27 crore as against ten *per cent* in the preceding year (₹ 733.40 crore). The balance 91 *per cent* of receipts of ₹ 7297.71 crore during 2014-15 was from the Government of India.

4.1.2 The details of tax revenue raised during the period 2010-11 to 2014-15 are given in **Table No. 4.1.2** below.

¹ Includes only the amount booked under the Minor Head 901 - share of net proceeds assigned to the State, booked under the Major Heads 0020 - Corporation tax, 0021-Taxes on income other than corporation tax, 0032 - Taxes on wealth, 0037 - Customs, 0038- Union excise duty, 0044 - Service tax.

Table No. 4.1.2 Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Taxes on sales, trade etc.	220.00	227.57	242.20	296.92	250.80	258.52	385.88	395.74	500.00	433.33	(+) 9.50
2	Motor Vehicles Tax	15.00	4.44	15.65	13.21	17.17	15.83	19.57	18.73	22.31	20.77	(+) 10.90
3	State Excise	6.00	6.61	12.11	9.80	8.59	9.93	12.74	9.20	14.52	9.32	(+) 1.31
4	Stamps and Registration Fees	10.00	3.57	15.52	4.82	6.64	5.99	6.26	7.90	7.14	7.76	(-) 1.77
5	Land Revenue	5.00	1.29	1.05	0.84	1.68	1.24	1.09	1.12	1.24	1.42	(+) 26.79
6	Taxes on duties on electricity	0.44	0.003	0.01	0.34	-	0.04	0.44	0.05	0.50	-	(-) 100.00
7	Others	32.30	23.57	31.30	42.14	47.95	41.28	65.89	39.99	75.12	44.23	(+) 10.65
Total		288.74	267.05	317.84	368.07	325.51	332.83	491.87	472.73	620.83	516.83	(+) 9.33

(Source: Finance Accounts and Annual Financial Statement)

One Department reported the following reasons for variation:

Minor Irrigation Department: The increase of revenue during 2014-15 was due to increase of Staff Pay and Sale Tax deducted from the Cheque Drawal Authority (C.D.A.) during the year.

The other Departments despite being requested (April 2015) and subsequent reminder (August 2015) did not furnish the reasons for variation in receipts from that of the previous year (February 2016).

4.1.3 The details of the non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table No. 4.1.3** below.

Table No. 4.1.3 Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase(+)/ decrease (-) in 2014-15 over 2013-14
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Miscellaneous General Services	200	76.87	99.38	138.33	93.01	75.29	167.38	110.83	184.12	132.48	(+) 19.54
2	Power	160	88.29	250	106.58	177.7	108.3	171.69	96.23		0.10	(-) 99.90
3	Interest receipts	45	44.65	41.04	25.18	54.03	20.66	30.47	33.1	33.52	30.60	(-) 7.55
4	Forestry and Wild Life	5	2.1	7.73	3.46	2.54	2.94	4.18	3.71	4.18	4.62	(+) 24.53
5	Major and Medium Irrigation	15	10.49	12.47	8.61	12.69	3.75	10.42	2.42	11.46	2.04	(-) 15.70
6	Public Works	11.46	16.88	21.36	15.13	20.43	6.01	18.31	1.81	20.14	2.90	(+) 60.22
7	Other Administrative Services	1.47	1.08	0.45	2.89	1.3	1.39	3.49	1.18	3.84	1.01	(-) 14.41
8	Police	0.75	0.88	1.14	0.9	1.07	0.99	1.08	1.03	1.19	0.79	(-) 23.30
9	Medical and Public Health	0.57	0.12	0.14	0.1	0.15	0.15	0.12	0.29	0.13	0.34	(+) 17.24
10	Co-operation	0.17	0.19	0.2	0.26	0.22	0.33	0.31	0.22	0.34	0.49	(+) 122.73
11	Other non-tax receipts	17.21	18.33	25.81	10.09	22.70	11.97	22.32	9.85	25.14	8.36	(-) 15.13
Total		456.63	259.88	459.72	311.53	385.84	231.78	429.77	260.67	284.06	183.73	(-) 29.52

(Source: Finance Accounts & Annual Financial Statement)

The respective Departments reported the following reasons for variation:

Co-operation Department: The increase of revenue during 2014-15 was attributed to increase in target and recovery of pending audit fees for the last year from Cooperative Societies and Voluntary Organizations.

Public Works Department: The increase of revenue during 2014-15 was attributed to more realization of registration fee from contractor and realization of outstanding House Rent.

Police Department: The decrease of revenue during 2014-15 was on account of less receipts during the year due to withdrawal of Police deployed with Private Companies.

Forest Department: The increase of revenue during 2014-15 was mainly due to sale of departmentally extracted timber under 13th Finance Commission recommendation.

The other Departments despite being requested (April 2015) and subsequent reminder (August 2015) did not intimate the reasons for variation in receipts from that of the previous year (February 2016).

4.2 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2015 on two principal heads of revenue amounted to ₹ 12.10 lakh, of which ₹ 9.40 lakh was outstanding for more than five years, as detailed in **Table No. 4.2.1** below. The arrears of revenue in

respect of other heads of revenue (viz., Taxes on Sales, Trade *etc.*, Passenger and Goods Tax, Other Taxes on Commodities and Services, Entertainment and Luxury Tax *etc.*, and Stamp and Registration Fees) have not been furnished.

Table No. 4.2.1 Arrears of revenue

(₹ in lakh)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than 5 years as on 31 March 2015	Replies of Department
1	Other Taxes on Income and Expenditure	0.14	0.07	Not furnished
2	Land Revenue	11.96	9.33	Not furnished
Total		12.10	9.40	

It would be seen from the table that the recovery of ₹ 9.40 lakh (the Revenue Department has not furnished the amount of revenue outstanding for more than five years) was pending under the head “Other Taxes on Income and Expenditure” and “Land Revenue” for more than five years. Arrears of ₹ 12.10 lakh were pending with the departmental authorities. Revenue amounting to ₹ 9.40 lakh pending for recovery for more than five years indicates that the chance of recovery of revenue is remote.

4.3 Arrears in Assessments

No information in respect of arrears in assessment was furnished by the Taxation Department though called for (April 2015) and subsequent reminder (August 2015).

4.4 Evasion of Tax Detected by Department

No information in respect of evasion of tax detected was furnished by the Taxation Department though called for (April 2015) and subsequent reminder (August 2015).

4.5 Pendency of Refund Cases

No information in respect of pendency of refund cases was furnished by the Taxation Department though called for (April 2015) and subsequent reminder (August 2015).

4.6 Response of the Departments/Government Towards Audit

The Principal Accountant General (Audit), Manipur (PAG (Audit)) conducts periodical audit of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the Rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/ Governments 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 PAG (Audit) within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection Reports issued upto December 2014 disclosed that 755 paragraphs involving ₹ 97.39 crore relating to 256 IRs remained outstanding at the end of June 2015 as mentioned below along with the corresponding figures for the preceding two years in **Table No. 4.6.1** below,

Table No. 4.6.1 Details of pending Inspection Reports

	June 2013	June 2014	June 2015
Number of pending IRs	221	235	256
Number of outstanding audit observations	581	641	755
Amount involved (₹ in crore)	66.37	74.24	97.39

4.6.1 The department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in **Table No. 4.6.2** below.

Table No. 4.6.2 Department wise details of IRs

(₹ in crore)

Sl. No.	Name of Department	Nature of receipts	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1	Finance	Taxes on Sales, Trade <i>etc.</i>	53	173	33.09
		Passenger & Goods Tax (PGT)	Nil	Nil	Nil
		Other Taxes & Duties on Commodities and Services (OTD)	Nil	Nil	Nil
		Entertainment & Luxury Tax <i>etc.</i>	Nil	Nil	Nil
2	Excise	State Excise	10	26	3.87
3	Revenue	Land Revenue	111	315	28.30
4	Transport	Taxes on Motor Vehicles	69	193	31.60
5	Stamp and Registration	Stamp & Registration Fees	13	48	0.52
Total			256	755	97.38

Audit did not receive replies from the head of the offices within one month from the date of issue of the IRs for 16 IRs issued during 2014-15. This large pendency of the 256 IRs due to non-receipt of the replies is indicative of the fact that the head of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG (Audit), Manipur in the Inspection Reports.

The Government may consider having an effective system for providing prompt and appropriate response to audit observations.

4.6.2 Departmental Audit Committee Meetings

The Government sets up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. However, no departmental audit committee meetings were held during 2014-15.

As can be seen from **para 4.7.1** there is large pendency of IRs. In view of this, the Government may ensure holding of audit committees meetings to expedite clearance and settlement of outstanding audit observations.

4.6.3 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the PAG (Audit) to the Principal Secretary/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Four draft paragraphs were sent to the Principal Secretaries/Secretaries of the respective departments by name between July and October 2015. The Principal Secretaries/Secretaries of the departments did not send replies to three draft paragraphs despite issue of reminders (November 2015) and the same have been included in this Report without the response of the departments.

4.6.4 Follow up on Audit Reports – summarised position

The internal working system of the Public Accounts Committee (PAC), notified in December, 2002 laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall *suo moto* initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of Tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on Audit Paragraphs of the Reports were being delayed inordinately. Forty paragraphs (including two performance audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Manipur for the years ended 31 March 2008, 2009, 2010, 2011, 2012 and 2013 were placed before the State Legislature Assembly between 19 March 2009 and 16 July 2014. The action taken explanatory notes (ATNs) from the concerned Departments on these paragraphs were received late with average delay of one month in respect of each of these Audit Reports. Action taken on explanatory notes in respect of 18 paragraphs/reviews from four departments (Revenue, Taxation, Transport and Home) had not been received for the Audit Reports for the years ended 31 March 2011, 2012 and 2013 so far (December 2015).

The PAC discussed 18 selected paragraphs/reviews pertaining to the Audit Reports for the years 2011, 2012 and 2013 and its recommendations on 13 paragraphs were incorporated in their 38th, 40th and 45th Reports. However, ATNs have not been received in respect of 13 recommendations of the PAC from the departments concerned as mentioned in **Table No. 4.6.3** below.

Table No. 4.6.3 Position of Outstanding ATNs

Year	Name of Department	No. of Recommendations
2011	Transport	3
2012	Transport	1
	Taxation	4
2013	Taxation	3
	Tourism	1
	Transport	1
Total		13

4.7 Analysis of the Mechanism for Dealing With the Issues Raised by Audit

To analyse the system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraph 4.7.1 and 4.7.2 discuss the performance of Land Revenue Department under revenue Major Head 0029 – Land Revenue and cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15.

4.7.1 Position of Inspection Reports

The summarised position of the Inspection Reports (IRs) issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2015 are tabulated in **Table No. 4.7.1** below.

Table No. 4.7.1 Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance during the year		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1	2005-06	22	49	1.71	6	27	1.29	Nil	2	0.002	28	74	2.99
2	2006-07	28	74	2.99	12	32	2.99	1	Nil	Nil	39	106	5.98
3	2007-08	39	106	5.98	17	40	3.62	3	8	0.05	53	138	9.55
4	2008-09	53	138	9.55	7	24	1.81	Nil	9	0.12	60	153	11.24
5	2009-10	60	153	11.24	14	50	5.91	Nil	2	0.003	74	201	17.15
6	2010-11	74	201	17.15	10	24	2.90	1	4	0.01	83	221	20.04
7	2011-12	83	221	20.04	12	21	2.04	6	13	0.04	89	229	22.04
8	2012-13	89	229	22.04	8	23	3.04	1	Nil	Nil	96	252	25.08
9	2013-14	96	252	25.08	6	28	3.07	1	1	Nil	101	279	28.15
10	2014-15	101	279	28.15	16	99	11.04	Nil	Nil	Nil	117	378	39.19

The Government arranges *ad-hoc* Committee meetings between the Department and PAG (Audit) to settle the old paragraphs. As would be evident from the above table, against 28 outstanding IRs with 74 paragraphs from 2005-06, the number of outstanding IRs increased to 117 with 378 paragraphs at the end of 2014-15. This is indicative of the fact that adequate steps need to be taken by the Department in this regard to reduce the number of outstanding IRs and paragraphs.

4.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Departments and the amount recovered are mentioned in **Table No. 4.7.2** below.

Table No. 4.7.2 Position of paragraphs accepted by the Departments

(₹ in crore)

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs	No. of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2004-05	Nil	Nil	Nil	Nil	Nil	Nil
2005-06	1	0.02	1	0.02	Nil	Nil
2006-07	1	0.04	1	0.04	Nil	Nil
2007-08	Nil	Nil	Nil	Nil	Nil	Nil
2008-09	Nil	Nil	Nil	Nil	Nil	Nil
2009-10	1	0.06	1	0.06	Nil	Nil
2010-11	Nil	Nil	Nil	Nil	Nil	Nil
2011-12	1	0.03	1	0.03	Nil	Nil
2012-13	Nil	Nil	Nil	Nil	Nil	Nil
2013-14	1	0.32	Nil	Nil	Nil	Nil
Total	5	0.47	4	0.15	Nil	Nil

From the above table it is observed that the progress of recovery even in accepted cases was very slow during the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. Further, the arrear cases including accepted audit observations were not available with the office of the Sub-Registrar, Land Revenue Department. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

4.8 Action Taken on the Recommendations Accepted by the Departments/Government

The draft Performance Audits (PAs) conducted by the office of the PAG (Audit), Manipur are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These PAs are also discussed in an exit conference and the Department's/Government's views are included while finalizing the Audit Reports.

The following PAs on the Department of Taxation were featured in the Audit Reports of the last five years. The details of recommendations and their status is given in **Table No. 4.8.1** below.

Table No. 4.8.1 Status of recommendations of Performance Audit

Year of AR	Name of the PA	No. of recommendations	Details of the recommendations	Status
2010-11	Performance Audit on “Declaration Forms in Inter-State Trade and Commerce”	5	The Government of Manipur may consider the following steps to enhance the effectiveness of the machinery for concession and exemption in Inter-State sales, branch transfer and transparency in assessment in respect of intra State transactions: ➤ Installing a mechanism to ensure that cross verification of Declaration forms is done diligently by the AAs concerned before accepting the Declaration Forms; ➤ Prescribing a periodic return to monitor the progress made from time to time in cross verification of the Declaration Form at the Commissioner of Taxes’ level; ➤ Uploading dealers’ details, forms issued and utilization thereof in the TINXSYS.COM website for a transparent assessment and as an aid to assessment of State offices as well as other States. Necessary steps may be taken to provide full access to the modules developed and the TINXSYS website; ➤ Putting in place a system to maintain records to watch the receipt of Declaration Forms from outside the State and dispatch of Declaration Forms to other States; and ➤ Taking early action to install internal audit wing to ensure strict compliance with the provisions of the Act and the Rules by the Assessing/Departmental officers.	Compliance to audit observations and recommendations have not been intimated to audit.

4.9 Audit Planning

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

During the year 2014-15, there were 63 auditable units, of which 15 units were planned and 15 units had been audited, which is 24 *per cent* of the total auditable units.

4.10 Results of Audit

Position of local audit conducted during the year

Test check of the records of 15 units of Sales Tax/Value Added Tax, State Excise, Motor Vehicles, Goods and Passengers and other departmental offices conducted during the year 2014-15 showed under assessment/short levy/loss of revenue aggregating ₹ 9.62 crore in 35 cases. During the course of the year, no reply was furnished by the Departments regarding under assessment and other deficiencies which were pointed out in audit during 2014-15. The departments had not recovered any amount in 635 cases during 2014-15 pertaining to the audit findings of the previous years.

4.11 Coverage of This Report

This Report contains two Performance Audits (Admissibility of Input Tax Credit and Implementation of Smart Card Project for Driving Licence and Registration Certificates of vehicles) and four paragraphs (selected from the audit detections made during the local audit referred to above) involving financial effect of ₹ 4.23 crore.

The Departments have furnished their reply to the Performance Audits. In respect of the four paragraphs, the Departments/ Government have accepted audit observations involving ₹ 0.88 crore out of which ₹ 0.11 crore had been recovered. The replies in the remaining cases have not been received (February 2016). These are discussed in succeeding paragraphs.

PERFORMANCE AUDIT

TAXATION DEPARTMENT

4.12 Admissibility of Input Tax Credit

Highlights

Taxation Department, Government of Manipur is responsible for ensuring proper checking of Input Tax Credit (ITC) claims in the returns filed, verification of tax invoices and other documents in support of ITC claims, imposition of restrictions under Manipur Value Added Tax Act 2004 and Manipur Value Added Tax Rules, 2005 *etc.* During audit the following deficiencies were noticed in the ITC system:

- The returns furnished by dealers did not show the stock position of goods with different items attracting different rates. Without stock position the veracity of the returns could not be ascertained.

(Paragraph 4.12.7.2)

- There was no system for the verification of tax invoices submitted by dealers in support of ITC claims. During the years 2012-13 to 2014-15, 41 dealers made excess claim of ₹ 28.07 lakh.

(Paragraph 4.12.7.3)

- There was neither any arrangement nor dedicated staff for conducting tax audit and audit assessment in the department as per MVAT Act.

(Paragraph 4.12.8)

- Section 35 of MVAT Act required periodic survey for identification of unregistered dealers, however, during the period under audit, only one survey was conducted.

(Paragraph 4.12.9)

- There was no formal grievance redressal system in the department. No Appellate Tribunal has been constituted till date.

(Paragraph 4.12.11)

4.12.1 Introduction

Value Added Tax (VAT) is a multi-point tax payable by manufacturers, processors, whole-sale dealers and retailers on the value added at each point of sale with provision for credit of tax paid during purchase and also at each point of purchase of such goods at rates mentioned in various State Value Added Tax Acts/Rules. In Manipur the tax rates are specified in Schedule I and II of the State VAT Act.

The tax payable by a dealer on sale of goods under the Act is called Output Tax while the tax paid by the dealer on purchases of goods/raw materials is called Input Tax. A dealer is liable to pay the net tax through the process of offsetting of Input Tax Credit (ITC) from the Output Tax.

The Manipur Value Added Tax Act (MVAT) 2004 and MVAT Rules, 2005 regulate the claims and allowance of ITC and imposition of restrictions on claim of ITC. Under the Act and Rules, registered dealers are entitled the benefit of ITC on purchases made from registered dealers within the State of Manipur with certain restrictions. It is the responsibility of the Taxation Department, Government of Manipur (GoM) to ensure proper checking of ITC claims in the returns filed, verification of tax invoices and other documents in support of ITC claims, imposition of restrictions under MVAT Act and Rules, establishing monitoring mechanism for the detection of bogus dealers in the VAT chain *etc.*

4.12.2 Organisational Setup

The Taxation Department is headed by the Commissioner of Taxes (CT) and is under the administrative control of Finance Department. For administrative convenience, the State is divided into 13 zones². Each zone is headed by an Assistant Commissioner of Tax (ACT) or Superintendent of Taxes (STs). The dealers are required to file their tax returns with the respective ACTs/STs under whose jurisdiction they fall. The ACTs/STs monitor filing of returns, assess the returns filed and monitor payment of tax. The department does not have either an Audit wing or Vigilance wing.

4.12.3 Scope of Audit and Methodology of Audit

Only 128 dealers spread across 11 zones³ claimed ITC⁴ during the period 2012-13 to 2014-15. All these dealers were selected for test check.

The scope, objective and criteria of the Performance Audit were explained to the officers of the Department headed by the Commissioner of Taxes in an Entry Conference held in April 2015. Thereafter the Audit Team issued audit requisitions and questionnaires to elicit data and information on ITC claims. Books of accounts, assessment records, invoices in support of ITC claims and other records relating to VAT were test checked in the office of the Commissioner of Taxes and the offices of ACTs/STs. Based on the ITC claims, invoices of selling dealers were requisitioned and examined. Records of VAT maintained by the 128 dealers claiming ITC were also examined. The audit observations were discussed with officers of the Department headed by the Assistant Commissioner of Taxes in an Exit Conference in November 2015.

² Including the section dealing with Works contracts which is treated as a zone.

³ No ITC claims reported in respect of Zones XI and Works Contract.

⁴ (₹ in crore)

Year	Number of dealers	VAT collected	Amount of ITC claimed
2012-13	103	224.83	14.64
2013-14	123	354.37	17.35
2014-15	122	429.42	14.15
Total		1008.62	46.14

The comments and views of the Department are incorporated in the report at appropriate places.

4.12.4 Audit Objectives

The Performance Audit was conducted to assess whether:

- the system provides for detection of apparent deficiencies in ITC claims in the returns filed;
- the system of VAT audit provides for adequate checks over ITC claims;
- the control mechanism in the Department is effective in ensuring compliance to provisions and detection of fraudulent dealers in the VAT chain;
- the ITC System is easy to administer and
- the dealers find the ITC system user friendly, efficient in grievance redressal and implementation of various statutory provisions including refunds.

4.12.5 Audit Criteria

The audit criteria were derived from the following sources:

- Provisions of MVAT Act, 2004;
- Provisions of MVAT Rules, 2005 and
- Notifications and orders issued under MVAT Act and MVAT Rules by the Government of Manipur from time to time.

4.12.6 Acknowledgement

Audit acknowledges the cooperation extended by the Taxation Department in providing necessary information and records for the purpose.

Audit Findings

Deficiencies noticed in the system of admitting ITC claims of dealers by the Department are discussed in the following paras:

4.12.7 Deficiencies in ITC Claims in the Returns Filed

4.12.7.1 Poor maintenance of records

As per Rule 10 of MVAT Rules, for availing ITC a registered dealer shall maintain output register showing a true and up-to-date account of all sales of goods, input register showing a true and up-to-date account of all purchases of goods, delivery notes received, sale and purchase documents, inventory of raw

material, dispatch register of goods for sale outside the State and VAT Account register. Section 3 of MVAT Act provides that the Commissioner may make and issue general rules and specify forms for regulating the practice and proceedings of all officers and persons, issue such orders, instructions *etc.* for administration of this Act.

Test check of records of dealers showed that 108 dealers did not maintain output register, and 120 dealers did not maintain VAT Account register. There was no documented evidence to prove that the Tax Authorities conducted test check on the maintenance of prescribed records by the dealers. In absence of VAT account register, reverse credit on amount of ITC availed in respect of those goods which are not sold/resold because of theft/loss/destruction/purchased taxable goods returned to the selling dealer *inter alia* could not be seen and checked by Audit.

The department has not notified records to be maintained by the Zones. Except for challan register, none of the test checked Zones maintained any records/registers for watching the receipt of returns. Consequently, the Assessing Authority (AA) had not monitored filing of returns and enforcing compliance by dealers.

The assessment files maintained for every registered dealer were not page marked and bound. This made the invoices supporting the ITC claims or purchases vulnerable/susceptible to loss, misplacement etc. Further, there were no records which could give a consolidated picture of dealers indicating details such as status of returns filed, assessments done, tax due and paid, ITC claimed by dealers in each zone etc. Without such records, the identification and selection of dormant or inactive dealers, dealers who do not submit returns but are claiming ITC *etc.* could not be examined in audit.

Thus, due to poor maintenance of records, the Department had not monitored the filing of returns and ITC claims by the dealers.

The Department accepted (December 2015) that record maintenance by both the Department as well as the dealers was poor and that official instructions would be issued to the dealers to comply with MVAT Rule 10. However, no information regarding issue of instruction has been received (February 2016).

4.12.7.2 Deficiencies in filing of returns

As per Rule 24 of MVAT Rules, every registered dealer and every dealer liable to pay tax shall furnish a correct and complete return in Form 10⁵ in which the dealer is required to disclose details of his turnover, show the breakup of goods taxable at different rates, furnish details of calculation of Reverse Tax Credit etc. The Department issued (February 2013) order⁶ for verification of returns with trading accounts of the dealers.

Out of 128 dealers test checked, 118 dealers did not attach with the returns calculation sheet of ITC claimed during the tax period. Trading accounts were

⁵ Returns to be filed within 20 days from the close of a quarter or from the end of the month, depending upon the turnover of the dealer.

⁶ Vide order No. 1(130)/IMP/2011 dated 18 February 2013.

neither submitted by 112 dealers with their returns nor was it called for by the Assessing Authority. The returns did not show the stock positions of goods attracting different rates of tax.

For admitting ITC claim under Section 17 of the MVAT Act, declaration of stock of unsold goods in Form 10 attracting different rates of tax at the end of a tax period is essential. The quantum of reversal of ITC on the unsold goods in case of closure of business or if goods are not sold because of any theft, destruction or damage for any reason *etc.*, could not be ascertained without stock position of goods. Moreover, without stock positions, veracity of the returns could not be ascertained.

It was noticed that the list of purchase and sales was neither submitted along with the monthly/quarterly returns where filing of returns was done manually nor uploaded in the case of online submission of returns. Moreover, there were no instances of calling for sales lists⁷ from selling dealers. Such lacuna could have been avoided had the department made filing of the list of purchase and sales by dealers along with returns mandatory.

The Department stated (December 2015) that though return in Form 10 requires declaration of different claims/sales and purchase figures, the dealers cannot be expected to maintain exact stock position. Moreover, stock position and furnishing of trading account statement is not mandatory for determining ITC. The reply is not acceptable as determining the quantum of reversal of ITC under Section 17(11) of the MVAT Act would not be possible if the exact stock position from time to time is not maintained. Moreover, verification of return (ITC claim) with trading account is mandatory as stated above.

4.12.7.3 Deficiencies in scrutiny of returns

- i) Section 34(3) of MVAT Act provides that if a registered dealer has filed the return in respect of any tax period within the prescribed time and the return so filed is found to be in order, it shall be accepted as self-assessment subject to adjustment of any arithmetical error apparent on the face of the said return.

Sales list of the selling dealer would disclose the tax actually paid by the purchasing dealer along the VAT chain. Before allowing set-off of ITC, invoices submitted by the dealer claiming ITC needs to be cross checked with sales list to verify the correctness of the claim. However, the MVAT Act/Rule is silent about requirement for submission of sales list by the selling dealer. There was also no record of notification issued by the Government in this regard. As the dealer was not obligated, no sales list was submitted along with returns scrutinized by audit. Moreover, two important modules in the VAT-soft namely e-filing of invoices and e-audit have not been implemented. Thus, there was no system of cross-checking of tax invoices submitted by dealers claiming ITC with the sales list and payment of tax by the selling dealers. The department has also not issued any check-list for scrutiny of ITC claim which could act as a ready reckoner to the

⁷ Details of sales containing invoice No., date, name of purchasing dealer, particulars of the sales, value of sales, tax rate and the tax etc.

Assessing Authority. There was no system in place for verification of tax invoices submitted by dealers in support office claims.

ii) On scrutiny of tax returns and assessment orders along with tax invoices submitted by dealers claiming ITC, the following irregularities were noticed:

1. 41 dealers made excess ITC claim of ₹ 28.07 lakh⁸ during the period from 2012-13 to 2014-15 as shown in **Appendix 4.1**.

The Department stated (December 2015) that notice was served to 29 dealers and three dealers have refunded the excess ITC to the tune of ₹ 11,143. In case of one dealer (M/S Furnish Well), ITC was claimed in the return by mistake. This contention is not acceptable as it contradicts the Assessment Order which allowed ITC. The department also stated that there was no excess ITC claim by two dealers (M/S Car Care and M/S CCN Mobiles). However, the Department did not furnish documents to substantiate their claim. The status in respect of remaining six dealers was not furnished.

2. Four dealers made excess claim of ₹ 1.95 lakh by claiming ITC at higher rate of 13.5 *per cent* on a purchase turnover of ₹ 30.37 lakh against permissible 5 *per cent* rate as shown in **Appendix 4.2**.

The Department stated that (December 2015) that notices were served to the dealers.

3. Section 17 of MVAT Act stated that ITC claim is allowed only for purchase of goods within the State from a registered dealer. Four dealers however submitted ITC claims of ₹ 5.83 lakh on invoices issued by unregistered dealers (**Appendix 4.3**) in contravention of the Act.

The Department stated (December 2015) that that notices were served to the dealers.

4. ITC of ₹ 1.10 lakh was allowed to one dealer⁹ on purchase turnover of ₹ 43.44 lakh for which the selling dealer could not be identified as neither the name of the dealer nor the TIN was available on the invoices.

5. Section 17(10) of MVAT Act allowed ITC claim only against tax invoice unless there is evidence that the same has not been issued by the selling dealer. However, ITC of ₹ 1.59 crore was allowed on a purchase turnover of ₹ 18.61 crore to 14 dealers (**Appendix 4.4**) even though tax invoices were not available with the dealer in contravention of the Act.

The Department stated (December 2015) that it was not practical to keep all tax invoices in the office custody and it was not mandatory to show all tax invoices to Audit since they had made necessary checks and verifications. The reply is not acceptable as there were no documentary evidences of checks and verifications such as working sheets, list of purchases, names of selling dealers etc.

⁸ ITC claimed ₹ 167.31 lakh *minus* ₹ 139.24 lakh (tax amount in the invoices).

⁹ M/s Vipin Traders (TIN-14110143190).

6. Five dealers had claimed ITC to the tune of ₹ 7.78 lakh on purchase turnover of ₹ 103.48 lakh from four dealers (**Appendix 4.5**) who either did not file returns or showed nil sales in their returns. In case of one dealer¹⁰, some of the invoices were issued before registration of the dealer.

The Department stated (December 2015) notices were issued to the dealers and informed that in respect of three selling dealers (M/S Sarajeevan Enterprises, M/S Jain Electrical and Hardware Store and M/S Rebecca's World), the reply was awaited. In respect of one dealer M/S Furnish Well, ITC was claimed in the return by mistake. The contention is contrary to the assessment order and the selling dealer has to deposit the tax levied as per the invoice.

7. One dealer¹¹ claimed ITC of ₹ 1.67 lakh for the quarter ending June 2012 on a taxable purchase of ₹ 14.02 lakh from one selling dealer¹² whose VAT as per return was less than the ITC claimed¹³.
8. One manufacturer¹⁴ sold goods worth ₹ 11.09 crore to four local dealers during the period from January 2012 to December 2014 and charged VAT at the rate of 1 *per cent* as per return furnished. However, the four dealers claimed ITC of ₹ 50.69 lakh at the rate of 4 *per cent* and 5 *per cent* of the value of goods (details given in **Appendix 4.6**). Moreover, the rate of VAT shown in the tax invoice and return furnished by the manufacturer to the taxation authority were different, which were not cross checked by the Assistant Commissioner of Taxes/Superintendent of Taxes.

The Department stated (December 2015) that the matter was referred to the Government.

9. Six dealers claimed ITC of ₹ 5.09 lakh on a taxable purchase of ₹ 37.71 lakh from M/s N.T Enterprises (TIN-14810346178). The dealer did not file returns for period after the quarter ending June 2013. The return filed by the selling dealer did not show sales (**Appendix 4.7**). As a result veracity of the claim of ITC could not be ascertained. This would also mean that either the selling dealer was concealing the sales or the purchasing dealers were making wrong claims.

4.12.8 System of VAT Audit Over ITC Claims

- i) Section 33 and 36 MVAT Act provide for Tax Audit and Audit Assessment respectively to act as a check of evasion of tax and as a deterrent to erring dealers.
- ii) Section 33 provides that the Commissioner or any other tax officer as directed by him shall undertake Tax Audit of the records, stock in trade and the related documents of the dealers, who are selected by the Commissioner in the manner as may be prescribed for the purpose and shall examine the

¹⁰ M/s Amp e-Services (TIN-14921852126).

¹¹ M/s Kishan Electronics (TIN-14410041124).

¹² M/s Thangjam Agency (TIN-14410119128).

¹³ Tax of ₹ 0.19 lakh on a sale of ₹ 1.41 lakh.

¹⁴ M/s Satyam Industries (TIN-14010638166).

correctness of return or returns filed and admissibility of various claims including input tax credit.

- iii) Under Section 36 of the Act, the Commissioner may serve on a dealer in the prescribed manner a notice requiring him to appear on a date and place specified therein, which may be in the business premises or at a place specified in the notice, to either attend and produce or cause to be produced the books of account and all evidence on which the dealer relies in support of his returns including tax invoice, if any, or to produce such evidence as specified in the notice.
- iv) Under VAT system much reliance is placed on self-assessment by the dealer and hence there are still chances of evasion of taxes by filing incorrect returns, suppression of facts etc. if there is no system of random check. Tax Audit and Audit Assessment are crucial as the records of dealers including books of accounts are examined in detail by the Assessing Authority. Planning for Tax Audit is completely absent in the department as discussed below.

Scrutiny of records showed that the department has not prescribed any criteria for selection of dealers for Tax Audit nor timeline for conduct of Tax Audit. There was no dedicated staff for Tax Audit. Neither Tax Audit nor Audit Assessment was done during the period from 2012-13 to 2014-15 inspite of the provisions in the MVAT Act except Audit Assessment of one dealer during 2013-14 and 2014-15.

Tax Audit and Audit Assessment of dealers provides an occasion for analysis of purchases and sales in the VAT chain and could also serve as a means to have a first-hand knowledge of trail of transactions of major dealers and collection of dealers' database. As Tax Audit and Audit Assessment were not conducted, database of the selling dealers was not available. This hampered identification of unregistered dealers and cross-checking of turnovers of sales and purchase.

On analysis of details of sales of selling dealers made available by the Department, it was noticed that 61 unregistered dealers¹⁵ with a purchase turnover of ₹ 123.75 crore during 2012-13 to 2014-15 (**Appendix 4.8**) were not detected. The unregistered dealers in VAT chain would cause loss of tax on value additions. Similarly it was found that 31 registered dealers made local purchases of ₹ 69.32 crore during 2012-13 to 2014-15, out of which 16 dealers did not file their return and 15 dealers did not disclose the purchase in their return (**Appendix 4.9**). The loss of VAT on account of suppression of purchase turnover and subsequent sales could not be quantified in absence of the sales data and minimum standard profit margin. Thus, in the absence of Tax Audit wing, there is no deterrence on unregistered dealers doing irregular business and their suppression of local purchase.

The Department accepted (December 2015) the audit observation and stated that appropriate action would be taken.

¹⁵ A dealer is required to get registered provided the gross turnover during last 12 consecutive months is ₹ 6 lakh or more.

4.12.9 Effectiveness of control mechanism in the Department in ensuring compliance to provisions and detection of fraudulent dealers in the VAT chain

- i) Section 65 of MVAT Act provides for periodic survey for identification of unregistered dealers.

During the past three years (2012-13 to 2014-15) only one survey was reported to have been conducted. However, the details of the survey could not be furnished. As such the chances of detection/identification of fraudulent/bogus/inactive dealers in the VAT chain were low.

There were instances of registered dealers claiming ITC against purchase made from unregistered dealers on the strength of the tax invoices issued by the unregistered dealer as mentioned in foregoing paragraph (4.12.7.3(ii)(3)). Cases of ITC claim by registered dealers against purchase made from registered dealers who had not filed return or filed returns with nil sales on the strength of the tax invoices issued by the latter dealers were also noticed. These irregularities remained undetected in VAT chain in the absence of enforcement wing.

- ii) Section 54(2) read with Section 55(9) and 56 of MVAT Act provides that every registered dealer shall keep all accounts, registers and documents maintained in the course of business - electronically or in other forms until the expiry of five years after the end of the year to which they relate or for such other period as may be prescribed or until the assessment reaches its finality whichever is later. Section 64 of MVAT Act stipulated that the Commissioner may require any dealer to produce before him any accounts or documents, or to furnish any information, relating to stock of goods, sales, purchases, deliveries of goods, payments made or received by the dealer, or any other information relating to his business, as may be necessary for the purpose of this Act and these records, shall at all reasonable time, be open to inspection by the Commissioner.

The Department could not furnish any record of inspection conducted during the period covered by this audit. As a result Audit could not ascertain whether the Department was aware of the completeness of records maintained by the dealers. Audit requisitioned the output register/sales list from 74 selling dealers through the Department, out of which 42 dealers (57 per cent), as shown in **Appendix 4.10**, could not produce records relating to 2012-13 to 2014-15. Hence, record maintenance at the dealer level was very poor.

The Department stated (December 2015) that neither the MVAT Act nor the MVAT Rules have specific provision for the external audit team to call for records/documents of the dealers. In this regard, Audit had obtained the dealers' records/documents through the concerned Tax Authority and hence the onus lies on the Department for making records available for test check by Audit.

4.12.10 The ITC System

(i) **Imposition of restrictions of Input Tax Credit on purchases of goods, raw materials, capital goods etc.**

Test check of the list of dealers claiming ITC showed that none of them were manufacturers, processor, dealers in SEZ zones, exporter claiming ITC and dealers who have been permitted by the Commissioner to make payment of presumptive tax at a percentage of the turnover of sales in lieu of tax as provided under Section 21 of MVAT Act. Further, no dealers who dealt in works contracts claimed ITC. As such, instances of complex situations such as partial allowance of ITC, imposing restrictions under different provisions of the Act in case of manufacturer, dealers in SEZ zones, exporters *etc.* were not noticed during period covered in Audit.

(ii) **Shortage of manpower**

There was shortage of staff. Against a sanctioned strength of 162, there were only 105 staff (35 *per cent* vacancy). The details are given below:

Sl. No.	Group	Sanctioned strength	Man-in-position	Vacancy
1	A	4	3	1
2	B	13	10	3
3	C	101	61	40
4	D	44	31	13
Total		162	105	57

Source: Departmental record

There was no specific delegation of power of the Commissioner of Taxes to other tax authorities. There were no Audit wing and Enforcement wing. As a result, implementation of the enforcement activities remained unattended. Moreover, two important modules in the VAT-soft namely e-filing of invoices and e-audit have not been implemented. This hampers detection of bogus, dormant or inactive dealers.

Thus, the Department had difficulties in implementation of the ITC system because of shortage of staff, non-existence of audit and enforcement wings and non-implementation of software modules.

The Department accepted (December 2015) that there was shortage of manpower.

4.12.11 Dealer Feedback on ITC System Interface

There was no formal grievance redressal system in place in the department. Appellate Tribunal has not been constituted so far. From the feedbacks collected from ITC claiming dealers, it was observed that majority¹⁶ of the dealers found the system easy to comprehend. The dealers did not face problem in clearance of doubts and grievance redressal as the officials and staffs of the department were accessible and co-operative.

¹⁶ Out of the 118 respondents, 10 said that the system is complicated, 2 stated that the system is moderate while the remaining 106 responded that the system was easy to comprehend.

The Department accepted (December 2015) that there was no official grievance redressal mechanism and the same would be looked into.

4.12.12 Conclusion

The Department failed to detect apparent deficiencies in the ITC claims as there was no system for verification of tax invoices submitted by dealers in support of ITC claims. System for tax audit and audit assessment as provided in the MVAT Act and MVAT Rules was not activated. There were no Audit and Enforcement wings. Record maintenance by dealers as well as by the Assessing Authority was poor.

4.12.13 Recommendations

For effective implementation of Input Tax Credit,

- The Department should bring automation in assessment and encourage online filing of returns, grievance redressal *etc.*;
- The deficiencies of the ITC system pointed out with respect to record maintenance, filing and scrutiny of returns, enforcement, *etc.*, be addressed through appropriate notifications;
- The Department should place a system of cross verification of tax invoices in support of ITC claims with details available with selling dealers and
- System for selection of dealers and planning for Tax Audit and Audit Assessment should be evolved and implemented at an early date.

TRANSPORT DEPARTMENT

4.13 Implementation of Smart Card Project for Driving Licence and Registration Certificates of Vehicles

4.13.1 Introduction

The Department of Transport, Government of Manipur is governed by the Motor Vehicle Act (1988), Central Motor Vehicle Rules (1989); and other such notifications issued from time to time. The Department is responsible for identification of bonafide holders of Vehicle's Registration certificates and driving licences and also for maintaining records of the population of vehicles running in the State. In order to usher transparency and e-governance through induction of Information Technology (IT) in Transport Sector, standardized software was developed by the Ministry of Road Transport & Highways (Ministry), Government of India (GoI) in consultation with National Informatics Centre (NIC), and Governments of State/ Union Territory and the Smart Card industry. The software has been made available to State / Union Territory free of cost.

Smart Card was defined¹⁷ in the Gazette Notification No. G.S.R. 400(E), dated 31 May 2002 and No.G.S.513 (E) dated 10 August 2004 issued by the Ministry, GoI. The Gazette Notification also empowered the States to prescribe the date for introduction of Smart Card based documents and precise specifications to be adopted for Smart Cards, Hand Held Terminals, printers and Smart Card Readers as embodied in the Central Motor Vehicle Rules, 1989 to ensure their uniform applicability throughout the country.

The Government of India set (September 2007) a dateline of 31 March 2008 for the States to complete implementation of Smart Card based project for issue of Driving Licence (DL) and Registration certificate (RC) and computerization of all Road Transport Officers (RTOs). In Manipur, the Department of Transport is responsible to implement the project.

4.13.1.1 Organisation Setup

The Department of Transport, Government of Manipur (the Department) is headed by a Secretary at the State level as the Administrative Head. At the Directorate level, the Department is headed by a Director who is assisted by two Deputy Directors, one Assistant Director and one Chief Information Technology Officer (IT Cell). There are nine districts in the State and each district is under the charge of one District Transport Officer (DTO) who is responsible for activities such as registration of vehicles, issue of driving licence, road permits and fitness issue etc. However, in Senapati district, there are two DTOs (Kangpokpi and Senapati) whereas there are no DTOs in Chandel and Tamenglong districts till the date of audit (October 2015). In addition, the Chief Technology Officer is responsible for technical activities such as Smart Card Registration Certificates, Driving Licence, etc.

4.13.1.2 Scope and Objective of the Audit

The State of Manipur has nine districts. The Department had so far implemented the project in six DTOs (namely Imphal West, Imphal East, Churachandpur, Thoubal, Bishnupur and Kangpokpi) and the Audit on Smart Card Project for Driving Licence and Registration Certificates of vehicles covered all these six DTOs for the period from 2010-11 to 2014-15. The objective of the audit was to evaluate the extent of implementation of the project in the State. Audit of records of DTO's was conducted during October to November 2015.

4.13.1.3 Objective of the Project

The objective of the project is to electronically link all the RTOs to their respective State Headquarter and subsequently link to the Central level to create National Register of Vehicles data. This system will ultimately prevent fabrication of fake Registration certificates and driving licences and impersonation in the context of the prevailing law and order situation of the States. The NIC would be the nodal agency for providing the national electronic connectivity.

¹⁷ Smart Card means a device capable of storing data and executing commands which is a microprocessor chip mounted on a plastic card.

4.13.1.4 Planning for the implementation of the Project

Proper planning is important for achieving the targets of the project. Thorough planning should be done to assess the requirements of equipment and finance and ensure smooth progress on implementation and timely completion of the project.

The Department outsourced the project to the Manipur Electronic Development Corporation Ltd (MANITRON) as an Implementing Agency (IA) by entering into an agreement on 15 April 2008 for a period of five years which could be extended through a fresh agreement. Audit noticed that the Department implemented the project without proper planning. There was no strategy to convert all pre-scheme manual Driving Licences (DL) and Registration Certificates (RC) to Smart Card versions and no time frame to fully cover the entire State. Terms and conditions did not specify issues of commissioning, quality and durability of Smart Card. Due to lack of proper planning, implementation of the project was ineffective and progress was very slow. Details of implementation of the project are discussed in the succeeding paragraphs.

4.13.2 Audit Findings

4.13.2.1 Implementation of project

The State Government issued an order No. 19/1/2001-T(MV)pt dated 24 October 2008 to introduce Smart Card Based Transport Management System in the State. The project involved issue of new Smart Card based RC/DL. For the existing holder of DL (other than Smart Card), their DL in Smart Card would be issued within a period of six months. The DTO, Imphal West was to commence issuing Smart Card RC and Smart Card DL with effect from 30 October 2008, whereas the GoI's target date for completion of the project by all States and Union Territories was 31 March 2008. Out of eight DTOs, the Department had so far commenced the project in six DTOs (October 2015). The dates of commencement of Smart Card project in each of the DTOs are given in **Table No. 4.13.1** below.

Table No. 4.13.1 Date of commencement of the Smart Card Project in the Districts

Sl. No.	District	Date of commencement
1	Imphal West	30-10-08
2	Imphal East	18-11-09
3	Churachandpur	18-11-09
4	Thoubal	05-01-11
5	Bishnupur	05-01-11
6	Kangpokpi (under Senapati District)	05-01-11
7	Senapati	Not commenced
8	Ukhrul	Not commenced

Source: Departmental Records

From the table above, it is seen that there was inordinate delay in the commencement of the project in all districts. Two DTOs viz., Senapati and Ukhrul were not covered under this scheme as on date of Audit (October 2015). The Department did not furnish date/target when the project would be covered

in the entire State. As a result, the Department had not complied with the direction of the Ministry of Road Transport, Government of India of completing the project even after a lapse of six years from the target date of implementation of the project. The Department stated (February 2016) that the project could not be fully implemented due to frequent bandhs, shortage of power supply and poor network connectivity.

4.13.2.2 Physical and financial target

The Department did not lay down physical and financial targets for completion of the project. The Implementing Agency is allowed to charge ₹ 180 per Driving Licence and ₹ 421 for Registration Certificate of Light Motor Vehicles (LMV) and Commercial Motor Vehicles (CMV) and ₹ 410 for Registration Certificate of Two Wheelers for issue of Smart Card.

As per Clause No. 3 of the contract agreement, the Department had provided equipment/appliances like servers, client machines, printers, 16 port networking switches, scanners, web camera with finger scanner and digital signature pad to the implementing agency for implementation of the project.

Accordingly the Department released ₹ 7.20 lakh¹⁸ during 2007 to the Implementing Agency for purchase of equipment.

The implementing agency (MANITRON) had so far issued 21,376 Smart Card RCs of LMVs, 88,698 Smart Card RCs of two wheelers and 79,196 Smart Card DLs till 31 March 2015 (both fresh and existing). The year wise performance of issue of Smart Card is given in **Table No. 4.13.2** below.

Table No. 4.13.2 Issue of Smart Card Driving Licence and Registration Certificate by MANITRON

Sl. No.	Type of Smart Cards	** 2008-10	Years					Total
			2010-11	2011-12	2012-13	2013-14	2014-15	
1	RC for Four Wheelers (LMVs)	2,425	2,461	3,527	3,773	4,186	5,004	21,376
2	RC for Two wheeler	7,753	8,721	12,546	17,111	20,405	22,162	88,698
3	Driving Licences	5,825	10,845	14,795	15,122	15,289	17,320	79,196
Total		16,003	22,027	30,868	36,006	39,880	44,486	1,89,270

*Source: Departmental Records ** from 30-10-08 to 31-03-10*

The Department stated that commercial vehicles were not covered under the project as their taxes were allowed to be deposited on quarterly basis which will ultimately need regular changes/update of RC. The reply of the department is not acceptable as regular updating of RC smart card regarding payment of tax could have been done electronically. Thus, commercial vehicles were being left out of the purview of Smart Cards even after a lapse of 6 years since the launching of the project. The total achievement against the population of vehicles on issue of Smart Card (RCs and DLs) as on 31 March 2015 is given in **Table No. 4.13.3** below.

¹⁸ vide Bill No. 136 and 137 dated 27 March 2007 for ₹ 3,87,935 on Cash Book Page No. 161 and Bill No. 69 dated 30 October 2007 for ₹ 3,31,901 on Cash Book Page No. 227.

Table No. 4.13.3 Outstanding Registration Certificates and Driving Licences to Smart Card as on 31 March 2015

Sl. No.	Type	Population/No to be converted into Smart Card	Smart Card issued by MANITRON	Percentage	
				Achievement	Shortfall
1	Four (4) Wheeler Registration Certificates –**LMVs	70,761	21,376	30 %	70 %
2	Two (2) Wheeler Registration Certificates	2,20,841	88,698	40%	60 %
3	Driving Licences	7,31,510	79,196	11 %	89 %
Total		10,23,112	1,89,270	18 %	82 %

Source: Departmental Records

*** LMV: Light Motor Vehicles (Car, Van, Jeep, etc. four wheelers other than commercial vehicles)*

From the above table, it is seen that the achievement of issue of Smart Card during the last five years ranged from 11 per cent to 40 per cent only with an overall achievement of 18 per cent even after six years from the date of commencement of the project. The pace of issue of Smart Cards is found to be very poor. The Department however, did not strive to ensure timely completion of the project.

The district wise details of outstanding position of conversion of Registration Certificates and Driving Licences to Smart Card are given in **Table No. 4.13.4** below.

Table No. 4.13.4 District-wise details of outstanding Registration Certificates and Driving Licences to Smart Card as on 31 March 2015

Sl. No.	Districts	Date of implementation	Type of Smart Card	Population to be converted into Smart Card	Smart Card issued by MANITRON	Shortfall in number and percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Imphal West	30/10/2008	Four Wheeler	47,245	17,035	30,210 (64%)
			Two wheeler	1,42,180	68,851	73,329 (52%)
			Driv. Licences	2,37,058	43,032	1,94,026 (82%)
2	Imphal East	18/11/2009	Four Wheeler	4,022	1,574	2,448 (61%)
			Two wheeler	14,465	8,189	6,276 (43%)
			Driv .Licences	21,096	6,674	14,422 (68%)
3	Churachandpur	18/11/2009	Four Wheeler	1,602	473	1,129 (70%)
			Two wheeler	21,599	4,062	17,537 (81%)
			Driv. Licences	1,45,266	11,973	1,33,293 (92%)
4	Thoubal	05/01/2011	Four Wheeler	4,735	559	4,176 (88%)
			Two wheeler	18,750	3,709	15,041 (80%)
			Driv. Licences	90,994	10,325	80,669 (89%)
5	Bishnupur	05/01/2011	Four Wheeler	12,630	1,642	10,988 (87%)
			Two wheeler	21,378	3,658	17,720 (83%)
			Driv. Licences	1,99,392	6,462	1,92,930 (97%)
6	Kangpokpi (SenapatiDist)	05/01/2011	Four Wheeler	527	93	434 (82%)
			Two wheeler	2,469	229	2,240 (91%)
			Driv. Licences	37,704	730	36,974 (98%)
TOTAL			Four Wheeler	70,761	21,376	49,385 (70%)
			Two wheeler	2,20,841	88,698	1,32,143 (60%)
			Driv. Licences	7,31,510	79,196	6,52,314 (89%)

From the above table, it is noticed that the percentage of outstanding Registration Certificates and Driving Licences to be issued as Smart Cards was the lowest in DTO Imphal East and highest in DTO Kangpokpi. Though the manual RC/DL were required to be surrendered within a period of six months from the date of commencement of project and fresh RC/DL are to be issued in Smart Card form, there was no enforcement mechanism to ensure the same.

4.13.2.3 Delay in issue of Registration Certificates

As per Rule 48 of the Motor Vehicle Rules, 1989, on receipt of an application for issue of certificates of registration under Rule 47 and after verification of the documents furnished therewith, the registering authority shall, subject to the provisions of Rule 44, issue to the owner of the motor vehicle a certificate of registration in Form 23 or Form 23-A, as may be specified in the Notification issued by the concerned State Government within the period of 30 days from the receipt of such an application.

Test check of the database of NIC (who activates the Smart Card) for the period 2010-15 showed that there were inordinate delays in issue of Smart Cards. Analysis of the number of days between date of registration and issue of RCs is shown in the **Table No. 4.13.5** below.

Table No. 4.13.5 Analysis of days between registration and issue of Registration Certificates during 2010-15

DTO	No. of days for issuing the card				Total
	0-30	31-90	91-365	>365	
Imphal West	64,648	684	1,664	4,988	71,984
Imphal East	7,949	84	192	554	8,779
Churachandpur	1,468	1,156	778	253	3,655
Bishnupur	3,250	64	230	547	4,091
Kangpokpi	163	79	65	25	332
Total	77,478	2,067	2,929	6,367	88,841

Source: Departmental Records

From the above table, it is seen that as against issue of 88,841 Smart Card RCs during 2010-15, 11,363 (12.80 *per cent*) were issued after the permissible stipulated time. The period of delays ranged from 30 to 90 days in 2,067 cases (2.3 *per cent*), and in 2,969 cases (3.3 *per cent*) ranged from 90 to 365 days. Further, in 6,367 cases (7.2 *per cent*), RCs were issued with a delay of more than 365 days. There is also no provision in the contract agreement to hold the Implementing Agency liable for the extraordinary delay or for imposition of financial penalty. Thus, the Department could not ensure issue of RCs on time. As such, there is a possibility that the vehicle owners might be also holding manual RCs thereby leading to the chances of duplication of RCs and impersonation of vehicle owners. In reply to an audit query the department stated that on fresh registration of vehicles, Smart Cards were issued timely.

4.13.3 Conversion of Backlog Registration Certificates

The Smart Card project was started in the State during 2008-09. In the first phase of implementation, the project was launched in Imphal West district on 30 October 2008 and thereafter the project was extended to five more DTOs on different dates. As per record provided by the Department, it is seen that the

Department had issued 1,74,956 RCs for LMVs and two wheelers before implementation of the project by six DTOs. Out of which the total number of RCs converted from manual to Smart Card during the year 2008–15 is given in **Table No. 4.13.6** below.

Table No. 4.13.6 Conversion of Pre-Scheme RCs to Smart Card

DTO	Commencement of Smart Card project	Type	No of RCs issued prior to implementation of project	No. of RCs Converted
Imphal West	30/10/08	4Wheeler	32,000	116
		2Wheeler	83,500	46
Imphal East	18/11/09	4Wheeler	1,584	338
		2Wheeler	7,390	308
Churachandpur	18/11/09	4Wheeler	499	113
		2Wheeler	14,998	40
Bishnupur	05/01/11	4Wheeler	8,621	965
		2Wheeler	13,787	142
Kangpokpi	05/11/11	4Wheeler	454	57
		2Wheeler	2,083	9
Thoubal	05/11/11	4Wheeler	2,300	201
		2Wheeler	7,740	45
Total		4Wheeler	45,458	1,790
		2Wheeler	1,29,498	590
Grand Total			1,74,956	2,380

Source: Departmental Records

From the above table it can be seen that out of 1,74,956 of backlog Registration Certificates, the Department had converted only 2,380 (1 *per cent*) to Smart Card in six DTOs. The Department had neither issued instruction nor given any direction to field offices with regard to conversion of the backlog certificates/licences till date. The deficient monitoring resulted in poor performance and shortfall of 99 *per cent* of the project in respect of conversion of backlog Registration. This will have serious adverse impact on the objective of project implementation.

4.13.3.1 Mismatch data on issue of driving licences

The Smart Card Project was outsourced to MANITRON as Implementing Agency during 2008–09. Accordingly, Smart Card of Registration Certificates and Driving Licences were issued from time to time. The Smart Card Registration Certificates and Driving Licences issued by the department in collaboration with MANITRON are captured by NIC (State). The NIC provides national connectivity to all the State Head Quarters and are then linked at the Central level to create National Register of motor vehicle data.

The department maintains the servers for storing the data and NIC captures the data of all Smart Card Driving Licences and Registration Certificates applications. The Smart Cards are activated by NIC in collaboration with MANITRON. Test check showed mismatch in the database of driving licences maintained by MANITRON and NIC as given in **Table No. 4.13.7** below.

Table No. 4.13.7 Comparison of figures* of NIC and MANITRON Driving Licence data

Year	NIC	MANITRON	Difference
**2008-10	5,080	5,128	-48
2010-11	9,123	8,605	518
2011-12	11,931	12,149	-218
2012-13	13,546	13,326	220
2013-14	13,626	13,199	427
2014-15	14,747	14,816	-69
Total	68,053	67,223	830

Source: Departmental Records

* Excluding figures of DTO Churachandpur; ** from 30 October 2008 to 31 March 2010

From the above table it can be seen that the number of smart card DLs issued as per record of MANITRON was 830 less than the record of NIC. The difference indicates lacuna in maintenance of proper records on the number of smart card DLs issued during 2008-15. The Department could not give a reconciled correct figure of Smart Card issued indicating it lacks control over implementation of the project.

The Department stated that steps were being taken to reconcile and find out the difference. The Department also stated that the reason could be due to dislocation of records and poor connectivity. The reply is not acceptable since the department had to maintain proper record on issue of smart card DLs and reconcile the figure with NIC periodically.

4.13.3.2 Inconsistency in reporting of vehicle population.

The field offices (DTOs) submitted monthly report on vehicles registered and driving licences issued during the month which were subsequently compiled at the Directorate level. However, audit noticed that the format of the reports of field offices were not uniform. It was seen that the report for DTO Thoubal for March 2013 shows only for the current month whereas the report for DTO Imphal West for the same month showed current month and cumulative figures of vehicle population. Audit also observed that the types of vehicles mentioned in the reports of DTOs were not uniform. As a result, the annual compilation of population was not consistent. Moreover, there was mismatch between the vehicle population furnished by MANITRON and the figures furnished by the six DTOs as shown in **Table No. 4.13.8** below.

Table No. 4.13.8 Mismatch between DTOs and MANITRON figures

Year	Four wheelers			Two wheelers			Total		
	DTOs	MANITRON	Diff.	DTOs	MANITRON	Diff.	DTOs	MANITRON	Diff.
2010-11	5,181	2,461	2,720	17,636	8,721	8,915	22,817	11,182	11,635
2011-12	4,816	3,527	1,289	12,807	12,546	261	17,623	16,073	1,550
2012-13	4,061	3,773	288	18,465	17,111	1,354	22,526	20,884	1,642
2013-14	5,766	4,186	1,580	22,395	20,405	1,990	28,161	24,591	3,570
2014-15	5,479	5,004	475	20,040	22,162	-2,122	25,519	27,166	-1,647
CB	25,303	18,951	6,352	91,343	80,945	10,398	1,16,646	99,896	16,750

From the above table a mismatch could be seen in the number of RCs of LMVs and two wheelers issued in six DTOs and MANITRON. The number of RCs of the implementing agency is less than total of six DTOs by 16,750 during 2010-15.

The Department did not have reliable records of vehicle population. The Department did not furnish reasons for the inconsistencies.

4.13.3.3 Issuance of Manual Driving Licences

The Government of Manipur (Transport Department) issued notifications dated 24 October 2008, 7 November 2009 and 27 December 2010 that all fresh Driving Licences be issued in Form 7 (Smart Card) as per Rule 16 of the CMV Rules 1989.

Test check of records showed that the number of driving licences issued during 2010-15 by four DTOs is more than that issued by MANITRON by 1,40,038 as shown in **Table No. 4.13.9** below.

Table No. 4.13.9 Driving Licences issued by DTOs and MANITRON after implementation of Smart Card Project

Year	Districts	Driving Licences issued		No. of Driving Licences issued other than Smart Card Col (3) – Col (4)
		Department (DTOs)*	MANITRON	
(1)	(2)	(3)	(4)	(5)
2010-11	Churachandpur	8,193	2,240	5,953
2011-12	Bishnupur, Churachandpur, Thoubal, Kangpokpi	57,917	6,203	51,714
2012-13	Bishnupur, Churachandpur, Thoubal, Kangpokpi	35,494	6,269	29,225
2013-14	Bishnupur, Churachandpur, Thoubal, Kangpokpi	34,970	5,824	29,146
2014-15	Bishnupur, Churachandpur, Thoubal, Kangpokpi	31,781	7,781	24,000
Total		1,68,355	28,317	1,40,038

Source: Departmental Records

** Including the Driving Licences issued by MANITRON as mentioned in column (4)*

From the above table, it is noticed that against a total number of 1,68,355 driving licences issued, 1,40,038 (83 per cent) of DLs were non Smart Card driving licences issued by four DTOs even after the implementation of Smart Card project in violation of direction of Ministry and State Government order. The Department had not taken stringent action to avoid such irregular practice. The Department stated (February 2016) that manual driving licence was issued considering the urgency of application of driving licences as there was shortage of power supply and poor network connectivity. The reply is not acceptable as 83 per cent of the driving licences were issued manually, which indicates that

no effort was made by the DTOs to issue driving licences in Smart card. Hence the main objective of the project for smart card DLs was not achieved even after six years of implementation of the project.

4.13.3.4 Hand Held Terminals not utilised

Hand Held Terminals (HHTs) are intended to be used as Smart Card readers for on-field officials to verify the authenticity of the Smart Card Driving Licences or Registration Certificates on the spot at any point of time. In terms of Clause 4(g) of the agreement, MANITRON supplied 25 numbers of HHTs to the Department between January 2012 and March 2013. These HHTs were provided for maintaining smooth operation of the Smart Card project. The department stated that out of 25 HHTs, duly approved software had been installed in 10 HHTs and the remaining 15 HHTs software installation was still pending (December 2015). Thus, HHTs remained unutilised and was kept idle.

4.13.4 Conclusion

Transport Department, Government of Manipur had outsourced the Smart card project (RCs & DLs) to MANITRON on 15 April 2008 without any time frame for completion. The overall shortfall on issue of smart card was 82 *per cent* even after six years from date of commencement of the project. Also there was inordinate delay in issuing of Smart Card (RCs). The Department had neither issued instruction nor given any direction to field offices with regard to conversion of the backlog registration certificates/driving licences. There was mismatch between MANITRON and NIC data on issue of smart card driving licence. The Department was still issuing manual DLs (4 DTOs) even after implementation of smart card project.

4.13.5 Recommendation

The Government may consider the following to ensure effective implementation of the Smart Card project:

- Prepare a plan indicating target dates of completion of the project in all districts of the State for timely issue of Registration Certificates and Driving Licences, and vigorously monitor implementation;
- Instructions may be issued to ensure that no RC/DL are issued in manual form;
- Prepare an action plan to convert all backlog RCs and DLs into smart card within a specific time frame and declare them invalid after a prescribed time limit and
- Involve dealers and driving schools in the process of issuing of certificates and make it incumbent upon them to obtain only Smart Cards as is the practice in some States.

COMPLIANCE AUDIT

TAXATION DEPARTMENT

4.14 Evasion of Tax by Suppression of Purchase Turnover

Evasion of tax upto ₹ 11.28 lakh due to suppression of purchase turnover and consequent penalty to the tune of ₹ 22.54 lakh

As per Section 39 of the Manipur Value Added Tax Act (MVAT Act), 2004 after a dealer is assessed under Section 34(3) for any year or part thereof, if the Commissioner has reasons to believe that the whole or any part of the turnover in respect of any period has escaped assessment or been under-assessed, he may proceed to assess to the best of his judgment, the amount of tax due in respect of such turnover. Further, under Section 36(7)(b), penalty equal to twice the amount of additional tax assessed is leviable in the event of furnishing incorrect and incomplete returns on the part of the dealer.

Scrutiny of records (June 2015) maintained in Taxation Zones I and VIII showed that the concerned Assessing Authorities (AA) finalised the assessments of three dealers¹⁹ under Section 34(3) of the Act *ibid* for different quarters between September 2013 and September 2014 based on the purchase turnover of goods of ₹ 5.49 crore from outside the State declared by the dealers in their returns.

On cross verification of records such as daily movement of Form C, goods registers (Check Gate Register) maintained at Hengbung taxation check post with purchase invoices obtained from website of Taxation Department, audit noticed that the dealers had purchased taxable goods worth ₹ 6.66 crore (details are shown in *Appendix 4.11*). Thus, the declaration of purchase turnover of ₹ 5.49 crore as against the actual purchase of ₹ 6.66 crore amounted to suppression of purchase turnover to the tune of ₹ 1.18 crore (₹ 54.15 lakh taxable at the rate of 5 per cent and ₹ 63.48 lakh taxable at the rate of 13.5 per cent) which resulted in evasion of tax upto ₹ 11.28 lakh²⁰. Consequently, under Section 36(7)(b) of the Act, it attracted penalty of ₹ 22.54 lakh.

On this being pointed out, the Commissioner stated (June 2015) that the matter will be looked into and tax will be recovered from the defaulting dealers. However, recovery of tax and penalty has not been intimated to audit (February 2016).

The matter was reported (October 2015) to the Government; reply has not been received (February 2016).

¹⁹ i) M/s A.R. Store (TIN- 14810036182).
ii) M/s A.K. Enterprises (TIN-14921426134) and.
iii) M/s Manipur Agency House (TIN- 14410006162).

²⁰ 5% of ₹ 54.15 lakh + 13.5% of ₹ 63.48 lakh = ₹ 2.71 lakh + ₹ 8.57 lakh = ₹ 11.28 lakh.

4.15 Non-Levy of Penalty

The Department failed to impose penalty amounting to ₹ 48.86 lakh leviable on 77 dealers for not getting their accounts audited

Section 58 of the Manipur Value Added Tax (MVAT) Act, 2004 read with Departmental notification dated 13 September 2010 provides *inter alia* that if the gross turnover of a dealer in any year exceeds ₹ 60 lakh he shall get his accounts audited by a Chartered Accountant or by a person appointed to act as an auditor of the company within six months from the end of the assessment year and furnish such audited accounts to the Tax Authorities by the end of the month after expiry of the period of six months. In the event of failure, the Tax Authority shall impose a penalty on defaulter at the rate of 0.1 *per cent* of the turnover as may be determined by the taxation authority.

Test check of records (July 2015) of the Taxation Zones I, II, III, IV V *etc.* showed that 77 dealers whose turnover exceeded ₹ 60 lakh each during 2013-14 were assessed for total taxable turnover of ₹ 488.61 crore during the year. However, these dealers did not submit their audited accounts till July 2015 as against the due date of submission *i.e.* October 2014. The Tax Authorities did not levy penalty of ₹ 48.86 lakh (*i.e.* 0.1 *per cent* of taxable turnover of ₹ 488.61 lakh) as required under provisions *ibid*.

On this being pointed out the Commissioner of Taxes stated (July 2015) that the penalty would be recovered from the defaulting dealers. However, the position of actual recovery is yet to be furnished (January 2015).

The matter was reported (October 2015) to the Government; reply has not been received (February 2016).

4.16 Outstanding Tax and Penalty

The Department failed to collect outstanding tax of ₹ 108.38 lakh and penalty of ₹ 23.64 lakh from the dealers

Under Section 42(5) of the Manipur Value Added Tax (MVAT) Act, 2004, where a dealer fails to make payment of the tax assessed or interest levied or penalty imposed on him or any other amount due from him under the Act within 30 days of the date of service of the notice of demand, the Commissioner shall, after giving the dealer reasonable opportunity of being heard, direct that such dealer shall, in addition to the amount due, pay, by way of penalty, a sum equal to two *per cent* of such amount of tax, penalty, interest or any other amount due, for every month, for the period for which payment has been delayed by him after the date on which such amount was due to be paid. In the event that tax still remains unpaid after the due date of payment of notice served, Section 42(6) specifies that the dues shall be recovered as arrears of land revenue as per directions contained in Section 42(7).

Scrutiny of records (June 2015) of Commissioner of Taxes, Government of Manipur showed that four dealers²¹ were served (July 2013 – May 2015) notices of demand for tax/interest/penalty in Form-8²² of MVAT Rules 2005 with direction to pay a sum of ₹ 139.50 lakh within thirty days from the date of serving of the notices as shown in **Appendix 4.12-A**. Against the demand, three²³ of the dealers paid ₹ 31.12 lakh (upto June 2015). The balance amount of ₹ 108.38 lakh remained outstanding, thereby attracting penalty of ₹ 23.64 lakh (June 2015) as shown in **Appendix 4.12-B**.

Thus, the Department had failed to collect Government revenue to the tune of ₹ 132.02 lakh (₹ 108.38 lakh + ₹ 23.64 lakh).

The matter was referred to Department/Government (September, 2015) and reply is yet to be received (February 2016).

TRANSPORT DEPARTMENT

4.17 Arrears of Annual Tax on Vehicles

Arrears of annual Tax from the owners of vehicles amounting to ₹ 4.28 lakh along with penalty of ₹ 6.75 lakh was not realised

Sections 3 and 5 of the Manipur Motor Vehicles Taxation (MMVT) Act, 1998, read along with its amendment dated 31 March 2011, provide that a tax shall be levied and collected, on all motor vehicles used or kept for use in Manipur, in advance at the appropriate rate as specified in the First Schedule to the Act, and by appropriate opted mode of payment which *inter alia* include annual tax payable annually or quarterly at the rates applicable for the specific class of vehicle. Under Section 14 of this Act, in case of default, the vehicle owner shall be punishable with fine which may extend to a sum equal to the annual tax payable. Under Section 18 when a person without any reasonable cause fails to pay the tax, the registering authority shall proceed to recover such tax, including penalty as arrears of land revenue.

Scrutiny of the records (February 2015) of District Transport Officer (DTO), Imphal West such as Combined Register, Payment Register, Cash Book, TR-5 and data from VAHAN software showed that the DTO did not collect annual tax from 62 owners of goods vehicles for periods ranging from one quarter to fifteen quarters. The total annual tax realisable in respect of the 62 goods vehicles works out to ₹ 10.95 lakh. A fine of ₹ 10.95 lakh was also leviable which the department should have realised as per provisions stated above.

²¹ M/s Manjushree Sales Agency (TIN 14410355160) and M/s Manipur Trading Corporation (TIN 14920634158), M/s Zenith Agency (TIN 14410086186) and M/s Kangleipai Service Station (TIN 14010782151).

²² As per Rule 27, 28, 29 & 30 of MVAT Rules 2005, Notice of demand in Form 8 is served only after the dealer had been given reasonable opportunity of being heard.

²³ M/s Manipur Trading Corporation (TIN 14920634158), M/s Zenith Agency (TIN 14410086186) and M/s Kangleipai Service Station (TIN 14010782151).

While admitting the audit observation, the DTO, Imphal West, stated (November 2015) that tax amounting to ₹ 6.67 lakh was realised and an amount of ₹ 4.20 lakh was also collected as penalty.

However, recovery of the balance amount of annual Tax of ₹ 4.28 lakh (₹ 10.95 lakh *minus* ₹ 6.67 lakh) along with penalty of ₹ 6.75 lakh (₹ 10.95 lakh *minus* ₹ 4.20 lakh) from the owners of vehicles has not been intimated (February 2016).