



**Report of the
Comptroller and Auditor General of India
on
Revenue Sector
for the year ended 31 March 2015**



**Government of Maharashtra
Report No. 2 of the year 2016**

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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2015 has been prepared for submission to the Governor of Maharashtra under Article 151 of the Constitution of India.

This Report contains significant findings of audit of Receipt and Expenditure of major Revenue earning Departments under Revenue Sector conducted under the Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971 and Regulations on Audit and Accounts, 2007 issued thereunder by the Comptroller and Auditor General of India.

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period 2014-15 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

This Report contains 24 paragraphs, including four Performance Audits relating to non/short levy of taxes, duties, interest and penalty, etc., involving ₹ 348.30 crore. Some of the major findings are mentioned below:

I General

The total revenue receipts of the State during the year 2014-15 were ₹ 1,65,281.25 crore, of which the revenue raised by the State Government was ₹ 1,27,510.58 crore and receipts from Government of India was ₹ 37,770.67 crore. The revenue raised by the State Government constituted 77 *per cent* of the total net receipts of the State. The receipts from Government of India included ₹ 17,630.03 crore on account of the State's share of divisible Union taxes which registered an increase of six *per cent* over the previous year and ₹ 20,140.64 crore received as grants-in-aid.

(Paragraph 1.1.1)

II Taxes on Sales, Trade, etc.

Performance Audit on “**System of Registration, Assessment and Collection under the Maharashtra Value Added Tax Act, 2002**” revealed the following:

- Audit noticed decline in the number of the surveys conducted by the Department from 2010-11 to 2014-15 for detection of the unregistered dealers (URD). It fell from 19,568 in 2010-11 to 2,360 in 2014-15.

(Paragraph 2.4.2)

- PAN numbers of 1,751 firms having assessable income of ₹ 2,051.21 crore and 17,970 firms having Import licences, were not present in the dealer database of the Sales Tax Department (STD). Thus the chances of the dealers as having remained outside the tax net could not be ruled out.
- TDS branch of the STD had identified 19,818 works contractors as URD dealers between 2009-10 and 2013-14, but the same had not been forwarded to the Survey branch for ensuring their registration.

(Paragraph 2.4.3)

- Though the average number of advisory visits conducted during 2010-11 to 2013-14 was 21,670, it had sharply declined to 6,468 in 2014-15. Of these, the pendency of 25,223 advisory visits pertained to more than two years as on 31 March 2015.

(Paragraph 2.4.5)

- As per the information furnished by the Department, 87,068 dealers had not filed their 2,32,305 periodical returns as on 31 March 2015. The penalty/late fee of ₹ 116.15 crore though leviable on the dealers for non-filing of the returns was not levied.

(Paragraph 2.4.6)

- In Large Taxpayer Unit, the disposals of the cases were not uniformly distributed throughout the limitation period of five years. The Department therefore had to speed up the process of finalisation at the end of the period to save the cases from being time barred.
- It was noticed that 2,777 i.e. 57 per cent of the cases assessed during 2013-14 were ordered for re-assessment in subsequent years and in 2,393 cases involving an amount of ₹ 8,031 crore, appeals against the assessment were preferred by the dealers. Thus a major portion of the cases remained undecided.

(Paragraph 2.4.8)

- Though the objective of the Business Audit Branch was to close the gap between taxes declared and VAT legally due, we found that the recovery of amounts against the demands raised was very meagre during 2013-14 and 2014-15. The number of cases in appeal also increased from 453 in 2012-13 to 9,771 in 2014-15. Further, the number of dealers not traceable increased from four in 2012-13 to 858 in 2014-15.

(Paragraph 2.4.9)

- In Refund and Refund Audit, the pendency of refund applications persisted/continued during all the periods from 2011-12 to 2014-15. It was found that 20,632 refund applications involving refunds of ₹ 2,438 crore pertained to the year 2011-12. Delay in refund assessments resulted in payment of avoidable interest to dealers amounting to ₹ 143.99 crore.

(Paragraph 2.4.10)

- In the Issue Based Audit the actual recoveries against the identified risks stood at 10.25 per cent in 2013-14 and 13.58 per cent during 2014-15 indicating that though it was an appreciable concept for fast-tracking tax recovery process it did not produce the desired results.

(Paragraph 2.4.12)

- In the Investigation Branch scrutiny of reports and records of selected divisions revealed that the delay in finalizing the investigation process resulted in 300 dealers having dues of ₹ 256.79 crore being untraceable, and in 24 other cases involving dues of ₹ 78.14 crore no property was found available for recovery.

(Paragraph 2.4.13)

- An amount of ₹ 2,416.02 crore was pending in respect of 1,68,831 short filer cases. Out of this, an amount of ₹ 753.04 crore pertained to more than five years.

(Paragraphs 2.4.14)

III Stamp Duty and Registration Fee

Performance Audit on “**Integrated Stamps and Registration Information Technology Application (iSARITA)**” revealed the following:

Although the Vendor Management System was introduced in August 2012, it has deficiencies regarding time tags and logics. Therefore the VMS was unable to give correct results for levy of penalty as well as failed to monitor the activities of BOT agencies.

(Paragraph 3.4.2.3)

Absence of necessary validation checks resulted in 15,977 documents where e-payment of ₹ 214.73 crore were made, the corresponding e-challans were not defaced. However, all these documents were registered.

(Paragraph 3.4.2.4)

The Annual Schedule of Rates (ASR) which was the backbone for the valuation module was not updated timely in the system. This has resulted into manual valuation of property for the purpose of levy of stamp duty.

(Paragraph 3.4.2.5)

The application lacked necessary control to ensure complete capture of data, resulted into non-storing of stamp duty details in respect of 19,960 documents involving ₹ 40.64 crore in database.

(Paragraph 3.4.3.1)

The application lacked necessary input validation controls that resulted into;

- Storing of multiple entries of same transaction relating to stamp duty paid resulted into reporting of inflated figures to the tune of ₹ 2.91 crore.

(Paragraph 3.4.3.2)

- The application accept any range of stamp duty which has resulted into reporting of inflated figure of revenue collection to the tune of ₹ 2,950.15 crore.

(Paragraph 3.4.3.3)

- The application was prone to risk of capturing the different PAN number for same person.

(Paragraph 3.4.3.4)

- The application is capturing duplicate/incorrect/blank Government Reference Number.

(Paragraph 3.4.3.5)

- In 93,263 documents of 296 SRs involving registration fees of ₹ 49.24 crore were misclassified as Document Handling Charges.

(Paragraph 3.4.3.6)

The application lacked necessary processing controls that resulted into;

- The system failed to maintain the sequence of registration process as envisaged in documentation of application.

(Paragraph 3.4.3.7)

- The application is prone to risk of registering the documents without proper authority and defeated very purpose of having biometric and digital data.

(Paragraph 3.4.3.8)

- Application failed to maintain reliable and complete data in respect of scanned images of the documents, digital photographs and biometric data of thumb impression of parties and witnesses concerned with the document and non accounting of document handling charges. We noticed that in 47,962 manually registered documents in 222 SRs, though document handling charges amounting to ₹ 2.35 crore were recovered these were not accounted for in the data base.

(Paragraph 3.4.3.9)

- Refund of stamp duty module is in partially operation due to some lacunas like order of refund is incorrectly generated.

(Paragraph 3.4.3.10)

Though the NIC was providing the software support to the Department at the rate of ₹ 60 lakh per annum as the maintenance cost, no Service Level Agreement (SLA) was entered with the agency.

(Paragraph 3.4.4.1)

Although the application was developed by NIC, Pune, no system documentation and source code was obtained by Department from NIC.

(Paragraph 3.4.4.2)

Due to weak logical security control;

- The operator has got un-authorized privileges to capture data in respect of other SRs.

(Paragraph 3.4.5.1)

- The system was susceptible to the risk of suspected backend changes with no audit trail to locate the event through security logs.

(Paragraph 3.4.5.2)

- The developer of application using live database for testing purpose and stored the test data in the same database.

(Paragraph 3.4.5.3)

- Though the warranty period of hardware procured in 2011 has lapsed, the Department has not taken any efforts to appoint an agency for maintenance of hardware. Thus, the hardware were susceptible to the risk of damage thereby disruption in the working.

(Paragraph 3.4.5.4)

Though there was condition in the contract for execution of the data entry work in the office of the JDR, the volumes of Index II were allowed to be shifted outside the office premises which resulted in permanent loss of 265 original Index-II records of important documents.

(Paragraph 3.4.6.1)

Grant of exemption in stamp duty on Letter of Intent submitted by the purchaser with the document which was found to be forged has resulted in irregular concession of stamp duty of ₹ 24.26 lakh.

(Paragraph 3.5.1)

Non-consideration of revenue sharing aspect mentioned in the recitals of the document for valuation resulted in short levy of stamp duty of ₹ 17.68 crore.

(Paragraph 3.5.3)

Inadmissible concession granted in valuation of properties resulted in short levy of stamp duty of ₹ 2.96 crore.

(Paragraph 3.5.4)

Since the purchaser was given the absolute right of the property, the classification of document as a development agreement was incorrect and thus, resulted in short levy of stamp duty of ₹ 1.55 crore.

(Paragraph 3.5.5)

IV Land Revenue

Arithmetical mistake and consideration of incorrect area of land resulted in short recovery of unearned income of ₹ 89.19 lakh.

(Paragraph 4.3.1)

Undervaluation of property resulted in short recovery of *nazrana* amount of ₹ 26.18 lakh.

(Paragraph 4.3.2)

V Taxes on Vehicles

Non-payment of Passenger Tax from the tax collected by the agency resulted in short recovery of Passenger Tax of ₹ 7.86 crore.

(Paragraph 5.4.1)

Motor Vehicle Tax amounting to ₹ 99.31 lakh on various types of vehicles was not recovered in 330 cases.

(Paragraph 5.4.2)

VI Other Tax Receipts

Entertainments Duty

Performance Audit on “Levy and collection of Entertainments Duty” revealed the following:

There was lack of co-ordination between the Home Department, which issued licences through Commissioner of Police, Mumbai and the Revenue and Forests Department that collected Entertainments Duty (ED) for ascertaining the number of licences issued. In 211 Entertainment Centres where licences were issued by Commissioner of Police, Mumbai, ED was not being recovered by concerned Collectors.

(Paragraph 6.3.2.1)

The organizers of two events breached the conditions of exemption, prescribed in the GRs. They were liable to pay ED of ₹ 34 lakh which the Department failed to collect.

(Paragraph 6.3.2.2)

There was short recovery of ED and surcharge amounting to ₹ 12.81 crore in case of amusement parks/water rides, which included an amount ₹ 11.35 crore from a single amusement park.

(Paragraph 6.3.2.3(b))

Non-recovery of ED amounting to ₹ 9.67 crore was noticed from 1,201 cases of cable operators and permit rooms/beer bars with live orchestra.

(Paragraph 6.3.2.3(c) and (d))

The Advisory Committee for grant of exemption of Entertainment tax to cinemas was not formed despite a lapse of 12 years from the date of issue of GR.

(Paragraph 6.3.2.5)

There were shortfalls in inspections of entertainment centres and ED offices at district and taluka level by the Divisional flying squads as well as Divisional Dy. Commissioners.

(Paragraph 6.3.2.6)

The Department was not monitoring the compliance of the conditions mentioned in the GR by the DTH service providers, like filing of CA approved returns, checking correctness of DTH connections and conducting surveys.

(Paragraph 6.3.2.7)

It was noticed that one hundred and fifty one cheques for payment of ED amounting to ₹ 65.48 lakh were dishonoured by the issuing banks, however, no action as per prescribed procedure was taken to recover the ED in cash.

(Paragraph 6.3.2.9)

Deposits amounting to ₹ 10.01 crore collected from organisers of events/performances were not forfeited and credited to the Government account as the organisers failed to submit the accounts in time. Further, demand drafts/cheques amounting to ₹ 48.74 lakh received on account of security deposits were not credited into the treasury in time which resulted in their being time-barred.

(Paragraph 6.3.2.10(b))

Education Cess and Employment Guarantee Cess

EC and EGC collected by one municipal corporation was remitted short by ₹ 5.10 crore into the Government treasury.

(Paragraph 6.5)

VII Non-Tax Receipts

Performance Audit on “**Systems and Controls in collection of Mineral Receipts**” revealed the following:

- Scrutiny of records revealed that in case of major minerals ‘Bauxite’ and ‘Limestone’, 865 applications of PL and 269 of ML were pending for disposal hampering the process of establishment of new area of mining and augmenting the state revenue.

(Paragraph 7.2.2.1)

- We noticed that in five cases the lessees had extracted mineral either in excess of the Mining Plan or without the approval of Mining scheme. However, action for violations relating to extraction of 4.03 lakh MT mineral valued at ₹ 6.23 crore without any lawful authority was not taken.

(Paragraph 7.2.2.3(a))

- We found that there was no sharing of information between the DGM, MoEF and IBM (GOI) to trace the excess extraction/ production of the mineral. The quantity mentioned in EC was at variance with the quantity mentioned in the scheme of mining and the quantity actually extracted by the lessees.

(Paragraph 7.2.2.3(b))

- In Kolhapur two lessees provided false information for obtaining EC in December 2006. The leases were cancelled by the MoEF in August 2012 and November 2013. The quantity of bauxite extracted during illegal occupation by both lessee was 26.97 lakh MT valued ₹ 30.02 crore. The same was not recovered by the State Government in terms of Section 21(5) of MMDR Act.

(Paragraph 7.2.2.4)

- Scrutiny of Inspection Reports in DGM /Dy. Director Kolhapur revealed two cases of excavation of 1.41 lakh MT of Bauxite outside the lease area. The lessees were liable to pay the penalty at ₹ 5.80 crore.

(Paragraph 7.2.2.5)

- Six lessees had transferred lease right to an agent through irrevocable Power of Attorney and Development Agreement without approval of Government and agent extracted 32.97 lakh MT of mineral valued ₹ 60.83 crore without lawful authority.

(Paragraph 7.2.2.6)

- The short fall in collection of royalty ₹ 6.54 crore was noticed in case of seven lessees. The short fall was due to lack of efforts to scrutinise returns submitted by lessee.

(Paragraph 7.2.2.7(a))

- The GoM did not have a centralized data about quantum of minor mineral (other than sand) and location thereof as a result the management of the miner mineral like precious/ semi precious stones, hill cutting, measurement of quarry leases etc; could not be effectively monitored.

(Paragraphs 7.2.3.1)

- Though, the rates royalty of the ordinary earth were revised from February 2010, the departments responsible for collection of the royalty continued to recover the royalty at pre revised rates, besides the collecting departments either did not credit royalty at all or credited less than that collected into the Government account. This resulted in short / non-recovery of royalty of ₹ 7.74 crore.

(Paragraph 7.2.3.2)

- The lease rent of ₹ 12.90 crore for the year 2014 in case of 28 leases of minor mineral and 13 leases of major mineral was not levied on Government land leased out for mining activities.

(Paragraph 7.2.3.4)

- We noticed that during 2010-14 out of 3,096 sand ghats identified for auction, 1,598 sand ghats having an upset price of ₹ 994.90 crore could not be auctioned.

(Paragraph 7.2.3.5(b))

- In Kolhapur and Nagpur, 122 sand ghats involving revenue of ₹ 24.88 crore were not put to auction during 2012-14 due to non-receipt of EC.
- In Thane, nine sand ghats though marked for extraction of sand could not be auctioned during 2012-14 due to non-receipt of a report on Environment Impact Assessment (EIA). The ghats had the potential of generating revenue to the extent of ₹ 72.25 crore.

(Paragraph 7.2.3.5(c))

- Lack of information sharing between Revenue Department, Regional Transport Office and Police in referring the cases of illegal transportation of minerals was noticed.

(Paragraph 7.2.3.7)

- Stamp duty of ₹ 31.84 lakh was neither levied nor paid on the bid amount of ₹ 106.13 crore in respect of auction of 448 sand ghats during 2012-14. In case of minor minerals, stamp duty and registration fees of ₹ 48.78 lakh was not levied by the Department.

(Paragraph 7.2.3.9)

- In Thane, permits for extraction of sand or sand mix clay of 3.48 lakh brass on payment of royalty of ₹ 20.56 crore was allowed without EIA study, thus, environment impact of such huge extraction was not assessed.

(Paragraph 7.2.3.10(a))

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by Government of Maharashtra during the year 2014-15, the State's share of divisible Union taxes and duties assigned to the State and Grants-in-aid received from Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned in **Table 1.1.1**.

Table 1.1.1

(₹ in crore)						
Sr. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue raised by the State Government					
	Tax revenue ¹	75,027.09	87,608.46	1,03,448.58	1,08,597.96	1,15,063.32
	Non-tax revenue ²	8,213.10 (8,225.04)	8,150.10 (8,167.70)	9,977.74 (9,984.40)	11,279.81 (11,351.97)	12,447.26 (12,580.89)
	Total	83,240.19 (83,252.13)	95,758.56 (95,776.16)	1,13,426.32 (1,13,432.98)	1,19,877.77 (1,19,949.93)	1,27,510.58 (1,27,644.21)
2	Receipts from the Government of India					
	Share of net proceeds of divisible Union Taxes and duties	11,419.79	13,343.34	15,191.92	16,630.43	17,630.03
	Grants-in-aid	11,195.89	12,166.64	14,322.33	13,241.44	20,140.64
	Total	22,615.68	25,509.98	29,514.25	29,871.87	37,770.67
3	Total revenue receipts of the State Government (1 and 2)	1,05,855.87 (1,05,867.81)	1,21,268.54 (1, 21,286.14)	1,42,940.57 (1,42,947.23)	1,49,749.64 (1,49,821.80)	1,65,281.25 (1,65,414.88)
4	Percentage of 1 to 3	79	79	79	80	77

Source: Finance Accounts

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹ 1,27,510.58 crore) was 77 per cent of the total revenue receipts against 80 per cent in the preceding year. The balance 23 per cent of the receipts during 2014-15 was from the Government of India.

¹ For details – refer statement no. 14 – Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Maharashtra for the year 2014-15. Figures under the head 0020-Corporation Tax, 0021- Taxes on income other than corporation tax, 0022- Taxes on agricultural income, 0032-Taxes on wealth, 0037-Customs, 0038-Union Excise Duties, 0044 Service Tax – share of net proceeds assigned to State booked in the 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

² Figures in brackets indicate gross receipts, the details of which are available in Statement No. 14 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Maharashtra for the year 2014-15. The figures above those in brackets are lower because of netting of expenditure on prize winning tickets from Lottery receipts.

1.1.2 The details of the tax revenue raised during the period 2010-11 to 2014-15 are given in **Table 1.1.2**.

Table 1.1.2

								(₹ in crore)
Sr. No.	Head of revenue		2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+)/ decrease (-) in 2014-15 over 2013-14
1	Taxes on sales, trade etc.	BE ³	32,915.05	42,074.24	48,773.70	57,973.50	64,442.69	
		Actual	38,934.47	46,796.91	55,855.27	57,760.74	61,797.71	(+) 6.98
	Central Sales Tax	BE	3,071.13	3,925.76	4,587.98	4,449.00	4,646.91	
		Actual	3,548.25	3,799.45	4,224.45	4,769.30	5,668.58	(+) 18.86
2	State Excise	BE	5,800.00	8,500.00	9,450.00	10,535.00	11,500.00	
		Actual	5,961.85	8,605.47	9,297.11	10,101.12	11,397.08	(+) 12.83
3	Stamp Duty and Registration fees	BE	10,478.86	15,677.14	15,730.00	17,403.08	19,426.00	
		Actual	13,515.99	14,407.49	17,548.25	18,675.98	19,959.29	(+) 6.87
4	Taxes and Duties on Electricity	BE	3,800.00	4,400.00	4,809.93	5,830.00	6,501.00	
		Actual	4,730.26	4,831.09	5,895.68	6,083.90	4,350.45	(-) 28.49
5	Taxes on Vehicles	BE	2,860.00	4,000.00	4,200.00	4,750.00	5,250.00	
		Actual	3,532.90	4,137.42	5,027.42	5,095.92	5,404.97	(+) 6.06
6	Taxes on Goods and Passengers	BE	738.57	812.43	893.67	998.00	1,097.80	
		Actual	599.88	574.25	690.74	1,240.68	586.56	(-) 52.72
7	Other taxes on Income and Expenditure- Taxes on Professions, Trades, Callings and Employments	BE	1,608.14	1,700.00	1,870.00	1,944.00	2,138.40	
		Actual	1,686.20	1,829.94	1,961.10	2,165.48	2,174.12	(+) 0.43
8	Other Taxes and Duties on Commodities and Services	BE	918.81	1,099.36	1,378.67	1,642.38	1,770.34	
		Actual	1,422.31	1,662.63	1,874.34	1,614.82	2,452.01	(+) 51.84
9	Land Revenue	BE	1,647.74	1,497.13	1,600.86	1,760.39	1,867.29	
		Actual	1,094.98	963.81	1,074.02	1,088.85	1,272.38	(+) 16.86
10	Others ⁴	BE	0.00	0.00	0.00	0.00	0.00	
		Actual	0.00	0.00	0.20	1.17	0.17	(-) 85.47
Total		BE	63,838.30	83,686.06	93,294.81	1,07,285.35	1,18,640.43	
		Actual	75,027.09	87,608.46	1,03,448.58	1,08,597.96	1,15,063.32	(+) 5.95

Source: Finance Accounts

It would be seen from the above that -

- there has been a continuous increase in the revenue during the last five years.

³ BE – Budget Estimates

⁴ Includes receipts misclassified under Union Excise Duties and Service Tax.

- The reasons for sharp decrease of 52.72 per cent in receipts under the head “Taxes on Goods and Passengers”, and of 28.49 per cent in receipts under the head “Taxes and Duties on electricity” during 2014-15 over 2013-14 though called for have not been received. However as per Finance Accounts, the decrease was mainly on account of decrease in the collection of tax under the head “Tax on entry of goods into Local Area” (53 per cent) and “Taxes on consumption and sale of Electricity” (28.74 per cent).

1.1.3 The details of the non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table 1.1.3**

Table 1.1.3

								(₹ in crore)
Sr. No.	Head of revenue		2010-11	2011-12	2012-13	2013-14	2014-15	Percentage of increase (+)/ decrease(-) in 2014-15 over 2013-14
1	Interest Receipts	BE	971.95	1,156.31	1,325.79	1,338.80	2,973.70	
		Actual	1,421.70	1,358.94	2,464.41	3,933.81	3,351.46	(-) 14.80
2	Non-ferrous mining and Metallurgical Industries	BE	2,150.81	2,280.50	2,405.71	2,632.82	2,767.00	
		Actual	1,841.19	2,045.47	2,037.76	2,141.17	2,335.85	(+) 9.09
3	Miscellaneous General Services ⁵	BE	1,710.65	317.43	396.14	393.19	413.97	
		Actual	622.28	556.29	311.52	155.69	316.25	(+) 103.13
4	Power	BE	763.05	763.26	780.10	780.00	850.00	
		Actual	485.42	725.01	451.41	617.50	523.77	(-) 15.18
5	Major and Medium Irrigation	BE	952.87	1,041.15	909.21	1,117.97	798.53	
		Actual	729.54	583.05	531.89	496.91	657.93	(+) 32.40
6	Other Administrative Services	BE	139.44	146.41	547.45	608.92	322.26	
		Actual	626.94	171.19	242.52	250.48	440.33	(+) 75.79
7	Others ⁶	BE	3,527.02	4,023.72	4,494.79	5,121.96	5,383.56	
		Actual	2,483.03	2,710.15	3,938.23	3,684.25	4,821.67	(+) 30.87
	Total	BE	10,215.79	9,730.83	10,886.17	11,993.66	13,509.02	
		Actual	8,213.10	8,150.10	9,977.74	11,279.81	12,447.26	(+) 10.35

Source: Finance Accounts

It would be seen from the above table that

- there has been a continuous increase in the revenue during the last five years
- The actual receipts from 2010-11 to 2014-15 have always been less than the budget estimates of the respective years.

⁵ Includes net lottery receipts after adjustment of prize money paid.

⁶ Dairy Development, Forestry and Wild life, Medical and Public Health, Co-operation, Public Works, Police and other non-tax receipts

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 under the following various heads amounted to ₹ 1,19,766.70 crore of which ₹ 29,536.53 crore was outstanding for more than five years, as detailed in **Table 1.2**.

Table 1.2

(₹ in crore)			
Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than five years as on 31 March 2015	Action by the Department
Taxes on Sales, Trade, etc.	1,19,030.05	29,242.75	Out of ₹ 1,19,030.05 crore, stay orders were granted by the appellate authority for ₹ 46,832.53 crore, recovery proceedings for ₹ 53,999.14 crore were in progress and the remaining amount of ₹ 18,198.38 crore was in different stages of recovery.
Taxes on vehicles	732.37	290.16	Demand notices have been issued.
State Excise Duty	4.28	3.62	Action of recovery is in progress. In some cases action under Maharashtra Land Revenue Code has been initiated. Some cases are in appeal whereas some are <i>sub-judice</i> .
Total	1,19,766.70	29,536.53	

The Relief and Rehabilitation Department and Energy Department did not intimate arrears pending collection despite being requested (June 2015). As such, arrears of revenue of the entire state under major heads of revenue could not be ascertained.

1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Sales Tax Department in respect of sales tax, motor spirit tax, luxury tax and tax on works contracts are shown in the following **Table 1.3**.

Table 1.3

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Cases due for assessment	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales Tax	31,856	94,245	1,26,101	99,747	26,354	79
Motor Spirit Tax	754	4	758	437	321	58
Purchase Tax on sugarcane	197	103	300	126	174	42
Entry Tax	25	0	25	2	23	8
Lease Tax	864	3	867	508	359	59

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Luxury tax	1,068	829	1,897	1,124	773	59
Tax on works contracts	15,035	952	15,987	10,108	5,879	63
Total	49,799	96,136	1,45,935	1,12,052	33,883	77

Source: Information furnished by the Department.

Thus, it would be seen from the above that

- 33,883 cases remained unassessed as on 31 March 2015. Of these, 26,354 cases pertained to Bombay Sales Tax Act (BST Act). Thus, 78 per cent of the BST cases continued to be un-assessed despite the fact that the BST Act has been repealed since nine years.
- The percentage of disposal under other heads of revenue ranged from eight to 63 per cent.

The Government may instruct the Department for early finalisation of all these cases in a time bound manner as with the passage of time the chances of recovery of dues involved in the cases would become bleak.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected under major heads of revenue, cases finalised and demands for additional tax raised as reported by the concerned Departments are given in Table 1.4.

Table 1.4

Head of revenue	Number of cases					
	pending as on 31 March 2014	detected during 2014-15	Total	investigation completed	additional demand with penalty etc. raised	pending for finalisation as on 31 March 2015
Taxes on Sales, Trade, etc.	5,870	11,502	17,372	12,734	11,191.40	4,638
Taxes on vehicles	571	91	662	633	0.48	29
State Excise	4	1	5	5	1,333.14	--
Total	6,445	11,594	18,039	13,372	12,525.02	4,667

Source: Information furnished by the Department.

As seen from the above table that investigation in 12,734 cases (73 per cent of total cases) was completed and additional demand with penalty etc. of ₹ 12,525.02 crore was raised.

1.5 Response of the Government/Departments towards audit

The Principal Accountant General (Audit)-I, Mumbai (PAG) and the Accountant General (Audit)-II, Nagpur (AG) conduct periodical inspections of

the Government departments to test check transaction of the tax and non-tax receipts and verify the maintenance of important accounting 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 PAG/AG within one month from the date of issue of the IRs. Serious financial irregularities are also reported to the heads of the Department and the Government by the offices of the PAG/AG. Half yearly reports are sent to the Secretaries of the concerned departments in respect of the pending IRs to facilitate the monitoring of audit observations.

IRs issued up to December 2014 disclosed that 12,611 audit observations involving ₹ 4,767.06 crore relating to 5,430 IRs remained outstanding at the end of June 2015 along with the corresponding figures for the preceding two years are mentioned in **Table 1.5**.

Table 1.5

Particulars	June 2013	June 2014	June 2015
Number of IRs pending for settlement	4,760	4,977	5,430
Number of outstanding audit observations	10,510	11,241	12,611
Amount of revenue involved (₹ in crore)	2,827.78	4,274.03	4,767.06

1.5.1 The department-wise details of the IRs issued up to 31 December 2014 and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in **Table 1.5.1**.

Table 1.5.1

(₹ in crore)					
Sr. No.	Name of the Department	Nature of receipts	Number of out-standing IRs	Number of out-standing audit obser-vations	Money value involved
1	2	3	4	5	6
1	Home	State Excise	255	414	353.38
2		Taxes on vehicles	341	1,377	90.50
3		Police Receipts (Non-Tax)	10	11	0.90
4	Revenue and Forest	Land Revenue	1,029	2,048	1,393.84
5		Entertainments Duty	496	964	33.80
6		Stamps and registration fees	1,222	2,914	631.81
7		Forest Receipts (Non-Tax)	127	189	40.86

1	2	3	4	5	6
8	Finance	Taxes on Sales, trade etc.	1,364	3,821	184.13
9		Taxes on profession etc.	157	211	5.03
10	Industry, Energy and Labour	Taxes and duties on Electricity	119	211	1,379.75
11	Urban Development	Education Cess and Employment Guarantee Cess	153	251	461.85
12		Maharashtra Tax on Buildings (with larger Residential Premises)	94	124	5.21
13	Housing	Repair Cess	21	28	186.00
14	Water Resources	User Charges (Non-Tax)	33	37	0.00
15	Public Works	Non-Tax Receipts	9	11	0
Total			5,430	12,611	4,767.06

The first replies in respect of each IR though required to be received from the concerned head(s) of office(s) within one month from the date of issue of the IRs, was not received for 314 IRs issued up to 31 December 2014. The pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Head(s) of Office(s) and the departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG/AG in the IRs.

The Government may consider issuing instructions to the concerned Head(s) of the office(s) for furnishing first replies to the IRs issued by the PAG/AG within the stipulated period of one month and take appropriate steps for settlement of the audit observations raised in these IRs.

1.5.2 Departmental Audit Committee Meetings

The Government had set up Audit Committees during various periods to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the Audit Committee Meetings (ACMs) held during the year 2014-15 and the paragraphs settled are mentioned in **Table 1.5.2**.

Table 1.5.2

(₹ in crore)						
Sr. No.	Department	Nature of receipts	Number of meetings held	Number of paras discussed	Number of paras settled	Amount
1	Relief and Rehabilitation	Stamps and Registration fees	1	268	117	180.56
2	Finance	Taxes on sales, trades, etc.	2	192	80	2.47
3	Revenue and Forests	Entertainments duty	1	154	19	0.69
4	Home	Taxes on vehicles	1	127	24	0.68
Total			5	741	240	183.84

The progress of settlement of paragraphs pertaining to Relief and Rehabilitation Department and Finance Department was on lower side in comparison to the pendency of the IRs and paragraphs.

1.5.3 Response of the Departments to 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/ AG to the Principal Secretaries/ Secretaries of the concerned departments, drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the concerned departments/Government is indicated at the end of each paragraph included in the Audit Report.

Thirty five draft paragraphs (clubbed into 24 paragraphs) including four Performance Audits were sent to the Principal Secretaries/Secretaries of the respective departments between March 2015 and August 2015. The Principal Secretaries/ Secretaries of the departments did not send replies to all these draft paragraphs despite issuing reminders (February 2016) and the same have been included in this Report without the response of the departments.

1.5.4 Follow-up on Audit Reports - summarised position

Position of explanatory notes :- According to the instructions issued by the Finance Department, all the Departments are required to furnish explanatory memoranda, duly vetted by Audit, to the Maharashtra Legislative Secretariat, in respect of paragraphs included in the Audit Reports, within three months of their being laid on the table of the House. However, explanatory memoranda in respect of 100 audit paragraphs included in Audit Reports from 1998-99 onwards have not been received till date as shown below in Table 1.5.4(A).

Table 1.5.4(A)

Department	Audit Report					Total
	1998-99 to 2010-11	2011-12	SA GLL ⁷	2012-13	2013-14	
Revenue and Forest	15	21	1	20	14	71
Urban Development	3	1		2	4	10
Finance					8	8
Home	2	1		2	2	7
Industry, Energy and Labour	1			1		2
Water Resources	1					1
Co-operation	1					1
Total	23	23	1	25	28	100

Position of Action Taken Notes (ATNs):- With a view to ensure accountability of the executive in respect of all the issues dealt with in the Audit Reports, the PAC lays down in each case, the period within which ATNs on its recommendations should be sent. However, ATNs for 337 recommendations included in 19 Reports of the Public Accounts Committee

⁷ Standalone Report on “Performance Audit on Government land given on lease”.

have not been received from the concerned Departments as given in **Table 1.5.4 (B)**.

Table 1.5.4(B)

Sr. No.	PAC Report No	ARs discussed	No. of recommendations for which ATNs are awaited
1	27th Report of 1994-95	1986-87, 1987-88	3
2	9th Report of 1996-97	1989-90, 1990-91, 1991-92	9
3	12th Report of 1996-97	1990-91, 1991-92	3
4	13th Report of 1996-97	1989-90, 1990-91	7
5	14th Report of 1996-97	1989-90	5
6	18th Report of 1996-97	1992-93, 1993-94	4
7	21st Report of 1997-98	1992-93, 1993-94	3
8	5th Report of 2000-01	1995-96	2
9	12th Report of 2002-03	1996-97	1
10	5th Report of 2006-07	1997-98	23
11	6th Report of 2007-08	1998-99	37
12	12th Report of 2008-09	2000-01, 2001-02, 2002-03	34
13	5th Report of 2010-11	2003-04	30
14	6th Report of 2010-11	2004-05	34
15	7th Report of 2010-11	2005-06	53
16	15th Report of 2012-13	2006-07	27
17	16th Report of 2012-13	2007-08	39
18	2nd Report of 2015-16	2008-09	14
19	3rd Report of 2015-16	2009-10	9
Total			337

The Department-wise and Audit Report-wise breakup of the 337 awaited ATNs are given in **Table 1.5.4 (C)**.

Table 1.5.4 (C)

Name of the Department	Year of Audit Report					Total
	Up to 2005-06	2006-07	2007-08	2008-09	2009-10	
Revenue and Forests	107	16	12	4		139
Finance	40	8	2	5	6	61
Home	29		13	5	3	50
Water Resources	13		4			17
Industries, Energy and Labour	13					13
Public Works	4		8			12
Co-operation and Textiles	7	3				10
Urban Development	9					9
Public Health	8					8
Medical Education and Drugs	6					6
Water Supply and Sanitation	6					6
Housing	5					5
Rural Development	1					1
Total	248	27	39	14	9	337

1.6 Analysis of the mechanism for dealing with the issues raised by Audit in the Revenue and Forests Department

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

The succeeding paragraphs 1.6.1 to 1.6.2 discuss the performance of the Revenue and Forests Department under revenue head - “Entertainments Duty“ in respect of cases detected in the course of local audit during the years from 2005-06 to 2014-15 as well as those included in the Audit Reports during the last 10 years, i.e. 2004-05 to 2013-14.

1.6.1 Position of Inspection Reports

The summarised position of Inspection Reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2015 are shown in **Table 1.6.1**.

Table 1.6.1

Year	Opening balance			Additions 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
2005-06	306	511	4.56	104	233	1.95	90	216	2.58	320	528	3.93
2006-07	320	528	3.93	116	218	1.57	120	253	1.17	316	493	4.33
2007-08	316	493	4.33	138	260	2.31	168	314	1.70	286	439	4.94
2008-09	286	439	4.94	107	226	4.12	124	248	2.61	269	417	6.45
2009-10	269	417	6.45	130	312	5.84	67	161	0.68	332	568	11.61
2010-11	332	568	11.61	125	279	3.68	113	243	2.46	344	604	12.83
2011-12	344	604	12.83	126	343	4.05	121	277	2.82	349	670	14.06
2012-13	349	670	14.06	165	401	7.99	108	274	5.58	406	797	16.47
2013-14	406	797	16.47	139	352	13.32	58	202	3.60	487	947	26.19
2014-15	487	947	26.19	106	318	46.26	41	150	1.14	552	1,115	71.31

The Government had set up Audit Committees (during various periods) to monitor and expedite the progress of IRs and paragraphs in the IRs. The outstanding paras are also pursued through periodic references to the concerned offices and also through field parties which visit these offices for audit in the subsequent years. Regular meetings apart from Audit Committee Meetings are also held with heads of the offices for discussion of those issues wherein the departmental views do not concur with the audit observations.

The Department may continue its efforts in making use of its machinery created for settlement of the outstanding audit observations so that the outstanding IRs, paragraphs and the amounts are considerably reduced.

The number of IRs, paragraphs and the amount pending settlement during the last 10 years has shown an increasing trend, with an amount of ₹ 71.31 crore is pending settlement in 1,115 paragraphs contained in 552 IRs.

1.6.2 Position of recovery of accepted cases in Audit Reports

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table 1.6.2.**

Table 1.6.2

(₹ in crore)					
Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered up to 31.03.2015
2004-05	2	74.85	2	74.85	63.45
2005-06	2	131.41	1	33.37	16.65
2006-07	1	41.51	1	41.51	39.18
2007-08	1	81.62	1	81.62	78.50
2008-09	2	37,618.63	2	16,890.73	38.48
2009-10	2	90.13	2	90.13	26.84
2010-11	1	3,135.84	1	2,988.69	0.00
2011-12	6	222.22	6	222.22	45.64
2012-13	6	572.85	6	572.85	147.17
2013-14	4	582.05	4	582.05	15.16
Total	27	42,551.11	26	21,578.02	452.99

The above table indicates that the recovery was only 2.09 per cent of the total accepted cases during the last ten years. The Government may instruct the concerned Department to make more efforts for recovery of the amounts at least in those cases which have been accepted by the Department. These may be considered to be recovered as arrears of land revenue.

1.7 Audit Planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter-alia* includes critical issues in Government revenues and tax administration i.e. budget speech, 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.

Out of 2,594 auditable units, 944 units were planned for audit during 2014-15 and out of which 923 units were audited during the year. In addition to this, four Performance Audits were conducted during the year to ascertain the efficiency and efficacy of the tax administration in realisation of the revenues.

1.8 Results of audit

Position of local audit conducted during the year

Test check of the records of 923 units of Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Goods and Passengers, Forest Receipts and

other departments conducted during the year 2014-15 revealed under assessment / short levy/loss of revenue aggregating to ₹ 841.71 crore in 2,914 observations. During the course of the year, the concerned departments accepted under assessment and other deficiencies of ₹ 71.80 crore involved in 741 observations which were pointed out in audit during 2014-15 and earlier years. The departments collected ₹ 72.06 crore in 776 cases during 2014-15, pertaining to audit findings of 2014-15 and of previous years.

Coverage of this Report

This Report contains 24 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including four Performance Audits, involving financial effect of ₹ 348.30 crore.

The departments/Government accepted audit observations involving ₹ 178.16 crore out of which ₹ 21.28 crore had been recovered. The replies in the remaining cases have not been received (February 2016). These are discussed in succeeding Chapters II to VII.

CHAPTER II

TAXES ON SALES, TRADE, ETC.

2.1 Tax administration

Levy and collection of Value Added Tax receipts is governed by the Maharashtra Value Added Tax Act, 2002 (MVAT Act), Maharashtra Value Added Tax Rules, 2005 (MVAT Rules), notifications and instructions issued by the Government from time to time. The Sales Tax Department under the overall control of the Principal Secretary to the Government, Finance Department, is headed by the Commissioner of Sales Tax. He is assisted by the Zonal Additional Commissioners of Sales Tax, Joint Commissioners of Sales Tax in respect of functional branches and Deputy Commissioners of Sales Tax and other officers at divisional level.

The MVAT Act came into force with effect from 1 April 2005. Prior to the introduction of the MVAT Act, the assessment, levy and collection of Sales Tax was governed by the Bombay Sales Tax Act, 1959 (BST Act) which was repealed with effect from 1 April 2005. However, the assessments pertaining to BST Act era that have not been finalised so far, continue to be governed by the erstwhile BST Act.

2.2 Internal Audit

The Department has an Internal Audit wing (IAW) headed by the Joint Commissioner of Sales Tax (Internal Audit). The criteria fixed by the IAW for audit of refund cases was as under.

- All cases where refund amount assessed by the assessing authorities (AA) is ₹ 10 lakh or more.
- All refund cases where the dealers deal in chemicals, iron and steel, etc.

After the refund orders in the above mentioned cases are passed by the AA, these cases are got audited by the IAW.

In case of the remaining assessments finalised by the AA, audit is conducted on selective basis by the IAW.

Information regarding position of cases selected for internal audit and actually audited as furnished by the Department is mentioned in **Table 2.2**.

Table 2.2

Year	No. of cases selected for audit by IAW	No. of cases audited by IAW	Audit observations raised By IAW	Audit observations settled during the year	Audit observations Pending as on 31 March of the year
2010-11	4,000	4,208	1,356	949	407
2011-12	4,000	3,069	969	674	295
2012-13	6,280	9,682	2,789	2,156	633
2013-14	16,695	18,628	5,808	4,320	1,488
2014-15	13,140	17,209	5,028	2,515	2,513
Total	44,115	52,796	15,950	10,614	5,336

Thus, the facts indicate that:-

- During the last five years, the IAW had conducted the audit of more number of cases than it had selected in that particular year except 2011-12.
- During the last five years, the number of audit observations raised by IAW has increased from year to year, their corresponding settlement has also shown an increasing trend. The Department has settled 67 per cent of the observations raised by IAW. The efforts of the Department are commendable.

2.3 Results of audit

In 2014-15, test check of records of 233 units relating to Taxes on sales, trades, etc. showed underassessment of tax and other irregularities involving ₹ 54.16 crore in 1,083 observations, which fall under the following categories as shown in **Table 2.3**.

Table 2.3

(₹ in crore)			
Sr. No.	Category	No. of observations	Amount
1	Performance Audit on “System of Registration, Assessment and Collection under the Maharashtra Value Added Tax Act, 2002”	1	0.00
2	Non/short levy of tax	215	10.43
3	Incorrect grant/excess set-off	90	17.82
4	Non/short levy of interest/penalty	24	0.80
5	Non-forfeiture of excess collection of tax	4	0.15
6	Other irregularities	749	24.96
Total		1,083	54.16

During 2014-15, the Department accepted underassessment and other deficiencies of ₹ 75.33 lakh in 65 observations which were pointed out during 2014-15 and earlier years. The Department also recovered an amount of ₹ 1.01 crore in 2014-15 in respect of 100 observations accepted during 2014-15 and earlier years.

- In one case of deferred tax the Department recovered the entire amount of ₹ nine lakh in August 2015 after the issue of Draft paragraph in May 2015.

The findings of Performance Audit on “**System of Registration, Assessment and Collection under the Maharashtra Value Added Tax Act, 2002**” and a few audit observations involving ₹ 1.23 crore are mentioned in the succeeding paragraphs.

2.4 Performance Audit on “System of Registration, Assessment and Collection under the Maharashtra Value Added Tax Act, 2002”

Highlights

- Audit noticed decline in the number of the surveys conducted by the Department from 2010-11 to 2014-15 for detection of the unregistered dealers (URD). It fell from 19,568 in 2010-11 to 2,360 in 2014-15.

(Paragraph 2.4.2)

- PAN numbers of 1,751 firms having assessable income of ₹ 2,051.21 crore and 17,970 firms having Import licences, were not present in the dealer database of the Sales Tax Department (STD). Thus, the chances of the dealers as having remained outside the tax net could not be ruled out.
- TDS branch of the STD had identified 19,818 works contractors as URD dealers between 2009-10 and 2013-14, but the same had not been forwarded to the Survey branch for ensuring their registration.

(Paragraph 2.4.3)

- Though the average number of advisory visits conducted during 2010-11 to 2013-14 was 21,670, it had sharply declined to 6,468 in 2014-15. Of these, the pendency of 25,223 advisory visits pertained to more than two years as on 31 March 2015.

(Paragraph 2.4.5)

- As per the information furnished by the Department, 87,068 dealers had not filed their 2,32,305 periodical returns as on 31 March 2015. The penalty/late fee of ₹ 116.15 crore though leviable on the dealers for non-filing of the returns was not levied.

(Paragraph 2.4.6)

- In Large Taxpayer Unit, the disposals of the cases were not uniformly distributed throughout the limitation period of five years. The Department therefore had to speed up the process of finalisation at the end of the period to save the cases from being time barred.
- It was noticed that 2,777 i.e. 57 per cent of the cases assessed during 2013-14 were ordered for re-assessment in subsequent years and in 2,393 cases involving an amount of ₹ 8,031 crore, appeals against the assessments were preferred by the dealers. Thus, a major portion of the cases remained undecided.

(Paragraph 2.4.8)

- Though the objective of the Business Audit Branch was to close the gap between taxes declared and VAT legally due, we found that the recovery of amounts against the demands raised was very meagre during 2013-14 and 2014-15. The number of cases in appeal also increased from 453 in 2012-13 to 9,771 in 2014-15. Further, the

number of dealers not traceable increased from four in 2012-13 to 858 in 2014-15.

(Paragraph 2.4.9)

- In Refund and Refund Audit, the pendency of refund applications persisted/continued during all the periods from 2011-12 to 2014-15. It was found that 20,632 refund applications involving refunds of ₹ 2,438 crore pertained to the year 2011-12. Delay in refund assessments resulted in payment of avoidable interest to dealers amounting to ₹ 143.99 crore.

(Paragraph 2.4.10)

- In the Issue Based Audit the actual recoveries against the identified risks stood at 10.25 *per cent* in 2013-14 and 13.58 *per cent* during 2014-15 indicating that though it was an appreciable concept for fast-tracking tax recovery process it did not produce the desired results.

(Paragraph 2.4.12)

- In the Investigation Branch scrutiny of reports and records of selected divisions revealed that the delay in finalizing the investigation process resulted in 300 dealers having dues of ₹ 256.79 crore being untraceable, and in 24 other cases involving dues of ₹ 78.14 crore no property was found available for recovery.

(Paragraph 2.4.13)

- An amount of ₹ 2,416.02 crore was pending in respect of 1,68,831 short filer cases. Out of this, an amount of ₹ 753.04 crore pertained to more than five years.

(Paragraphs 2.4.14)

2.4.1 Introduction

The system of Value Added Tax (VAT) has been implemented, in the State of Maharashtra, with effect from 1 April 2005. VAT is levied as per Maharashtra Value Added Tax Act, 2002 (MVAT Act), and the MVAT Rules, 2005 made thereunder. VAT is levied on sale of goods including intangible goods. In addition to granting set-off of tax paid on purchases to the dealers, VAT has various other advantages for both the business and the Government, such as, eliminating cascading effect of double taxation and promoting economic efficiency. It is primarily a self-assessment system with more trust put on the dealers for filing a correct assessment of their tax liabilities.

The procedures pertaining to Registration of dealers, Returns, Levy of Tax and Assessments are briefly mentioned as under:

Registration of Dealers

Registration of dealers is compulsory for importers whose gross turnover of sales or purchases exceeds rupees one lakh and for others whose turnover of sales or purchases exceeds rupees five lakh in a financial year as per Section 3 read with Section 16 of the MVAT Act. A dealer has to get himself registered under the Act within 30 days from the date on which he is liable to get registered. There is also a provision for voluntary registration by the dealers. The term dealer includes all person or persons who buys or sells goods in the State whether for commission, remuneration or otherwise in the course of their business or in connection with or incidental to or consequential to engagement in such business.

Returns filed by the Dealers

As per Section 20 of MVAT Act, every registered dealer is required to file correct, complete and self-consistent return, in prescribed form, by the due date as per the periodicity determined by the Sales Tax Department (STD). The return period in relation to a dealer may be a calendar month, a quarter (a period of three months; i.e., April to June, July to September, October to December and January to March) or six months (prescribed period of six months; i.e., April to September and October to March). The returns, whether monthly, quarterly or six monthly have to be uploaded in electronic format only.

The MVAT Act also requires certain dealers/persons to get their accounts audited by an accountant, within the prescribed period from the end of the year. The report of such audit is required to be furnished to the STD in a prescribed format electronically.


**Levy of
Tax**

Self-assessment: As per Section 20 of MVAT Act every registered dealer has to file correct, complete and self-consistent returns. These returns are scrutinized by Maharashtra Vikrikar Automation System (MAHAVIKAS), which is the IT system of the Department and follow up action is taken by the return branch. The registered dealer who fails to file the return within the prescribed period shall pay a late fee before filing the return. The non-filers are either unilaterally assessed or prosecuted. The dealers who pay tax less than the tax payable declared in their return are treated as short-filers. The cases of short filers are closed after recovery of tax dues.

Departmental audit/assessment: The system of audit or assessment under MVAT Act is of cases selected on the basis of risk analysis. When the findings of the departmental audit under Section 22 of the Act are accepted by the dealer and he files revised returns and pays up the dues, if any, arising out of such audit, the case is treated as closed. The necessity of assessment under Section 23 of the Act arises in case of the audit findings being disputed by the dealers. The dealers' returns will be deemed assessed if no assessment is conducted within time limit prescribed in the Act.

The cases are audited /assessed by the Large Taxpayers unit Branch, Business Audit Branch, Refund and Refund Audit Branch. Further, with effect from March 2012, a new concept called Issue Based Audit (IBA) was introduced, with a view to recover the taxes which were obvious and did not require much verification. From 2013-14, refund cases up to ₹ five lakh were also brought under the scope of IBA.

Reasons for conducting the Performance Audit:- VAT is a principal source of revenue receipt of the State Government. Since the introduction of VAT the Government and the STD has been improving the system of registration, assessment and collection of the VAT, still we during our local audit visits had found a number of gaps in these areas that had affected the collection of the revenue adversely. As such, it was desired to conduct a Performance Audit on the "System of Registration, Assessment and Collection under the Maharashtra Value Added Tax Act, 2002".

Organisational set up

The Sales Tax Department functions under the administrative control of the Additional Chief Secretary, Finance Department (ACS(FD)) at the Government level. At the departmental level, the Commissioner of Sales Tax (CST) heads the STD and is assisted by a Spl. Commissioner of Sales Tax /

Additional Commissioners/Joint Commissioners (JCs)/ Deputy Commissioners (DCs)/ Assistant Commissioners (ACs) and Sales Tax Officers at various levels. There are eight Additional Commissioners, of which three are in Mumbai and remaining five are in zonal offices at Thane, Pune, Kolhapur, Nashik and Nagpur. 58 Joint Commissioners are heading various functional branches such as Survey, Registration, Advisory, Returns, Assessment, Investigation, Recovery etc in the divisions.

Audit scope and Methodology

The Performance Audit (PA) was conducted between January 2015 and June 2015. Four out of twelve¹ divisions i.e. Mumbai, Pune, Nashik and Thane were selected for the PA by adopting Simple Random Sampling without Replacement technique.

During the PA, records for the years 2010-11 to 2014-15 of all the concerned functional wings² dealing with the Registration, Assessment and Collection were test-checked.

An entry conference was held in February 2015 with the Principal Secretary, Finance Department, the Commissioner of Sales Tax, Maharashtra State and other officers of the Sales Tax Department, in which the objectives, scope and methodology of the PA were discussed. The departmental authorities explained the various provisions relating to VAT and the procedures adopted for its administration.

The draft Performance Audit Report was forwarded to the Government and the Department in July 2015 and audit findings and recommendations were discussed in the exit conference held in November 2015. The Additional Chief Secretary, Finance Department, Commissioner of Sales Tax and other senior officers from the STD attended the meeting. The replies given during the exit conference and at other points of time have been appropriately included in the relevant paragraphs.

Acknowledgement

We acknowledge the co-operation of the STD in providing necessary information and records to audit.

Audit objectives

The Performance Audit was conducted to ascertain:

- Whether the registration system in place is adequate and effective;
- Whether the audit/assessments are carried out in accordance with the provisions of the Act and Rules and are effective in safeguarding Government Revenue;

¹ Amravati, Aurangabad, Dhule, Kolhapur, Mumbai, Nagpur, Nanded, Nashik, Pune, Raigad, Solapur, Thane (Thane and Thane Rural combined)

² For 'Registration':- The functional wings covered were Survey, Registration and Advisory.
For 'Assessment':- The functional wings covered were Large Taxpayer Unit, Business Audit, Refund and Refund -Audit and Investigation wings and
For 'Collection' The functional wings covered were Return and Recovery wing

- Whether the taxes are recovered/collected as per the provisions of the Act and Rules; and
- Whether an effective monitoring and internal control mechanism is in place.

Audit criteria

The criteria adopted for PA was:

- The Maharashtra Value Added Tax Act, 2002 (MVAT Act);
- The Maharashtra Value Added Tax Rules, 2005 (MVAT Rules) and notifications there under;
- Departmental circulars/Manuals.

Audit Findings

The audit findings have been categorized under Registration, Assessment and Collection functions, and are discussed in the following paragraphs:

A. Registration - Audit of Survey Branch

With a view to identify the dealers liable to pay tax but not registered, Section 66 empowers the Commissioner to conduct surveys so as to bring such unregistered dealers (URDs) into the tax net. For this purpose the Survey branch of the Sales Tax Department collects information from various sources such as Economic Intelligence Unit (EIU), inputs from departmental authorities, other Government departments and agencies, field visits etc. After gathering the information of the unregistered dealers, the survey branch issues courtesy letter to these URDs and conducts door-to-door visits of such dealers. Dealers who do not respond to such courtesy letters are visited on priority basis. In addition, the dealers whose turnovers are likely to cross the threshold limits during the subsequent year are required to be revisited. Scrutiny of records relating to Survey Branch in four³ Divisions revealed the following:

2.4.2 Performance of Survey branch

Non-maintenance of Data Entry Register (DER): Though the Departmental Manual provides for maintenance of a DER containing the details of the surveys conducted and actions taken thereof, no DER was being maintained and a module for the Survey branch was yet to be implemented in the MAHAVIKAS system. The survey information was being manually compiled at each level. In the absence of the DER, the stage at which the cases were pending and period to which the URDs belong could not be ascertained.

Decline in surveys: Each functional wing of the Department prepares periodical reports called Key Key Performance Indicator Reports (KKPIs). Scrutiny of the KKPI reports of the Survey Branch relating to four selected divisions revealed that 6,730 dealers were registered as a result of surveys conducted between 2010-11 and 2014-15. The year-wise position is mentioned in **Table 2.4.2**.

³ Mumbai, Nashik, Pune and Thane

Table 2.4.2

Year	Surveys conducted	URDs detected	No. of dealers registered
2010-11	19,568	4,059	2,793
2011-12	14,973	2,540	987
2012-13	4,326	1,794	1,319
2013-14	8,777	2,152	1,092
2014-15	2,360	1,056	539
Total		11,601	6,730

It would be seen from the above that as compared to 2010-11, there has been a decline of 88 *per cent* in the number of surveys conducted during 2014-15. The registration of new dealers has gone down from 2,793 to 539 (i.e. decrease by 81 *per cent*) during the same period.

Though 11,601 dealers were detected as URDs, only 6,730 dealers were registered during this five year period. Thus, the remaining dealers are yet to be brought within the tax net. The stage at which the cases were pending for registration could not be ascertained as the DERs were not being maintained.

Delay in disposal of complaints: One of the sources identified for survey is complaints which are received in the Department. In Mumbai division we noticed that out of 320 cases of complaints received during the periods 2011-12 to 2014-15, only 28 cases were disposed of. As the survey branch gets information regarding URDs through such complaints, lack of action in these cases may result in closure of businesses in such cases before bringing these dealers under tax net.

In the Exit Conference, the ACS (FD) stated that decline in surveys was on account of priority being accorded to assessments during that period being time barring periods for assessments. The JC (Survey), Mumbai division stated that format for DER has been submitted for approval and the same would be maintained. As regards the disposal of complaints, ACS (FD) accepted the audit contention and stated that action is being taken to dispose of the complaints and 127 cases had been disposed of since being pointed out by audit.

2.4.3 Non-obtaining/sharing of information regarding unregistered dealers

The Survey branch, as per the Departmental Manual, is required to obtain information regarding the registration of the URD dealers from different sources of the State /Central Government Departments and also from the sources within its own Department.

The records produced to audit did not indicate that any dealer had been registered by the Department on the basis of cross-verifications or documents obtained from other State/ Central Government Departments. Audit conducted a cross verification of information obtained from two Central Government departments with the data available in the IT system of the STD and found

that a number of dealers were not registered with the department. A few are mentioned in the following paragraphs.

Information obtained from Central Government Departments: We obtained information regarding firms assessed by the Income Tax Department and firms who had been issued Import Licences by the Director General of Foreign Trade (DGFT), Mumbai. The information was cross-verified with the dealer database of MAHAVIKAS with reference to the PAN numbers of the dealers. The cross-verification revealed that in respect of 1,751 firms having assessable income of ₹ 2,051.21 crore and 17,970 firms having Import licences, their PAN numbers were not present in the dealer database of the STD. Thus, the chances of the dealers as having remained outside the tax net could not be ruled out.

After this was pointed out, the JC, Nashik accepted the audit observation regarding non-registration of 34 dealers assessed by the Income Tax Department and intimated that action for their registration was in progress. In the Exit Conference, the ACS (FD) stated that the process of identifying more dealers as pointed out by audit was in progress and the exercise of registration of firms assessed by the Income Tax Department will take some time.

Information found within the Department: As per the information received from the EIU branch, only 53 cases of URD dealers had been forwarded in 2013-14 by EIU branch to the Survey branch since its formation in 2012.

A branch called the “TDS branch” was formed to monitor deduction and payments of tax deducted at source (TDS) by employers who award works contracts. It had identified 19,818 URD dealers between 2009-10 and 2013-14, but the details of these dealers had not been forwarded to the Survey branch for ensuring their registration.

The ACS (FD) stated in the exit conference that since the TDS information was not in electronic form, the details of URD dealers could not be effectively utilised by the STD to bring them within the tax net. However, since the past one year the TDS information was available in electronic form and would be utilized to register such dealers.

Thus, the above facts indicate that survey which is an essential tool provided in the Act for widening the tax base needs to be strengthened to prevent evasion of tax by the URDs.

The Government may put in place effective mechanism for obtaining inter and intra departmental data/information for bringing unregistered dealers within the tax net.

Registration of dealers

As per Section 3 read with Section 16 of the MVAT Act, registration is compulsory for importers whose gross turnover of sales or purchases exceeds rupees one lakh and for others whose turnover of sales or purchases exceeds rupees five lakh in a financial year. A dealer has to get himself registered under the VAT Act within thirty days from the date on which his turnover crossed the threshold limit. The Act also provides for voluntary registration by the dealers. A dealer is considered as an URD during the period from which

his turnover crossed the threshold limit of registration to the effective date of registration. Scrutiny of records relating to Registration Branch revealed the following:

2.4.4 Re-registration of non-genuine dealers

As per Rule 8(12) of MVAT Rules, a dealer has to provide his Permanent Account Number (PAN) to the registering authority at the time of making the application for registration. Further, as per the Department's Internal Circular 3A of 2010 dated 12-03-2010 regarding verifications to be carried out before and after granting of registration, it was stated that in case of high risk dealers, a verification visit is to be paid before allotment of registration number (TIN⁴).

The Department identifies non-genuine dealers⁵ from time to time and orders for cancellation of their registrations. Till 31 March 2014, 2,214 dealers have been identified as non-genuine dealers by the STD. Audit cross-checked PAN of these dealers with those dealers who had registered themselves after 1 April 2010 and found that seven non-genuine dealers had again voluntarily registered themselves afresh after 1 April 2010. It was noticed that PAN number of these dealers were not frozen at the time of cancellation of their registration and no verification was done by the advisory branch before grant of fresh registration to these dealers. Due to these loopholes seven dealers registered themselves afresh.

Out of these seven dealers, registration certificates (RCs) of five dealers were again cancelled 16 to 45 months after their re-registration date. Thus, the loophole in the system needs to be plugged and it should be ensured that the MAHAVIKAS system flags such issues at the time of registration.

The ACS (FD) stated during the exit conference that the PAN numbers of such dealers had not been frozen at the time of their detection in 2010-12 and hence their re-registration escaped detection. The Department has now blocked the PAN of these dealers and that it would not be possible for such dealers to re-register themselves.

Audit of Advisory branch

The Advisory branch was formed with a view to verify the information furnished by newly registered dealers, ascertain their revenue reliability and appraise the dealers about tax provisions, filing returns etc.

Up to 31 December 2013, advisory visits were prescribed to be conducted at the place of business (POB) of newly registered dealers within 3-6 months from the date of grant of registration. From 1st January 2014 onwards, advisory branch was restructured and renamed as 'New Registration Follow-up Branch' (NRFB). As per procedure laid down for NRFB, one visit at POB was required to be paid any time within two years from the date of registration in case of dealers registered from 1 April 2012 onwards. Out of dealers registered up to 31 March 2012, dealers selected by EIU were required to be

⁴ Tax payers Identification Number.

⁵ Dealers issuing false bills for a commission to other taxpaying dealers to enable the latter to fraudulently claim input tax credit.

visited according to Departmental Manual. Scrutiny of records relating to Advisory Branch revealed the following:

2.4.5 Performance of the Department in conducting advisory visits

Scrutiny of divisional reports of four selected divisions, for the periods from 2010-11 to 2013-14, revealed a pendency ranging up to 80 *per cent* in conducting advisory visit in case of dealers registered up to 31 March 2012, as shown in **Table 2.4.5**.

Table 2.4.5

Year	Total cases selected for Advisory visits	Advisory Visits conducted	Advisory Visits Pending at the end of year	Percentage of Col 4 to Col 2
(1)	(2)	(3)	(4)	(5)
2010-11	72,509	21,153	51,356	70.82
2011-12	79,765	21,176	58,589	73.45
2012-13	91,199	21,577	69,622	76.34
2013-14	97,227	22,773	74,454	76.57
2014-15 ⁶	31,671	6,468	25,223	79.64

From the above table, it can be seen that:-

- Though the average number of advisory visits conducted during 2010-11 to 2013-14 was 21,670, it had sharply declined to 6,468 in 2014-15 and as on 31 March 2015, the pendency of 25,223 advisory visits pertained to more than 2 years
- The pendency in the advisory visits ranged from 70.82 *per cent* to 79.64 *per cent*.

Impact of delay in conducting advisory visits: We called for the advisory visit records of 182 dealers who had obtained registration after 2010-11 and had been identified as non-genuine dealers by the STD in the three⁷ divisions. Of these, in 159 cases the Department did not furnish any information and stated that the cases had been closed. Of the remaining 23 dealers, the records/information furnished indicated that in none of the cases advisory visits had been conducted.

As would be seen from the following paragraph (2.4.7.5), there are 87,068 dealers who have not filed their periodical returns as on 31 March 2015. The possibility of closure of their business cannot be ruled out. The Department may consider to get their advisory visits done within the prescribed times so that non-genuine dealers are traced in time

The ACS (FD) stated during the exit conference that due to sharp increase in registrations, it was unable to carry out the advisory visits. Further, most of the

⁶ The reasons for sharp decline in the selection of cases for advisory visits in 2014-15 was stated to be due to a decision taken by the Department not conducting the visits of those dealers who were regularly filing their returns.

⁷ Mumbai, Pune and Thane.

advisory staff had been assigned assessment work of those cases that were likely to be time barred.

B. Audit of Assessments

2.4.6 Lack of departmental action against non-filers

Under MVAT Act every dealer is required to make an assessment of his turnover and deposit the VAT accordingly. As per the provisions of Section 23(1) of the MVAT Act, the Department is required to pass either Unilateral Assessment Orders (UAO) within three years or initiate prosecution for the periods for which returns have not been filed.

As per the information furnished by the Department, in respect of the four selected division, 87,068 dealers required to file 2,32,305 returns had not filed their periodical returns as on 31 March 2015. Of these, 50,273 returns pertained to the periods 2008-09 to 2010-11. It was further noticed that in 9,751 dealers, RC was cancelled due to closure of business. The penalty at the rate of ₹ 5000 (also called late fee) payable by each dealer for non-filing of the returns in accordance with notification dated August 2012 issued under Sections 29(8)/20(6) of the MVAT Act was not levied. It worked out to ₹ 116.15 crore.

The prolonged pendency in passing of UAO will give an opportunity to the dealers to close down their business; the Government may consider taking timely action for finalisation of the cases so that recovery of tax and penalty is effected. The advisory visits of these dealers may be conducted immediately for detecting the non-genuine dealers.

The ACS (FD) stated during the exit conference that action was being initiated against non-filers.

2.4.7 Performance of the Department in disposal of URD periods

Section 23(4) provided that 'where a commissioner has reason to believe that a dealer is liable to pay tax in respect of any period, but has failed to apply for registration, the Commissioner may assess the dealer to the best of his judgment wherever necessary'. The unregistered periods⁸ have to be assessed within eight years from the end of the unregistered period.

Audit examination of departmental reports revealed pendency ranging from 65 *per cent* to 91 *per cent* in disposal of URD periods during 2010-11 to 2014-15 in four test checked divisions mentioned in **Table 2.4.7**.

⁸ The URD periods pertain to the periods prior to the date of registration of the dealers.

Table 2.4.7.

Year	Total URD periods requiring settlement	URD periods pending at end of year	Percentage of Col 3 to Col 2
(1)	(2)	(3)	(4)
2010-11	15,302	13,099	86
2011-12	18,482	11,967	65
2012-13	22,058	19,370	88
2013-14	27,389	21,075	77
2014-15	26,769	24,461	91

It was noticed during test check in Mumbai division that as on 31 March 2015, an amount of ₹ 1.8 crore could not be recovered in case of 91 URD periods as these dealers were stated to be “not traceable”. Thus, if the delay in disposal of cases continued, the possibility of more dealers closing their business before the settlement of their URD periods cannot be ruled out rendering recovery of dues remote.

In the exit conference, the ACS (FD) stated that it was in the process of bringing down the pendency.

The Government may direct the Department to take measures to ensure that the Government revenue is protected by prioritizing assessments of unregistered periods.

2.4.8 Delay in assessment in Large Tax Payers Unit (LTU)

LTU branch was formed in 2007 to provide a single window service to dealers having net tax liability above ₹ one crore or who had claimed refunds more than ₹ five crore.

As per information pertaining to the four selected divisions furnished by the Department it was found that 81.30 per cent and 74.37 per cent of the cases were finalised in the year, in which these were likely to be time barred (at the fog end of their limitation period) as mentioned in **Table 2.4.8**

Table 2.4.8

Assessment Year	Total No. of cases disposed	Average number of cases disposed per division	Total No. of cases disposed finalized in limitation year period	Percentage of limitation period cases to total No. of cases
2010-11	824	206	--	--
2011-12	791	198	--	--
2012-13	2,507	627	--	--
2013-14	4,902	1,226	3,986	81.30
2014-15	4,662	1,166	3,467	74.37

Thus, it is seen from the table that the average number of cases disposed of increased from 206 in 2010-11 to 1,166 in 2014-15 and 7,453 cases were disposed of at the end of their limitation periods. Thus, the disposal of cases was not uniform throughout the limitation period of five year. The Department

therefore had to speed up the process of finalisation at the end of the period to save the cases from being time barred.

Impact on the quality of assessment: Audit found that 2,777 cases i.e. 57 per cent of the cases assessed during 2013-14⁹ were cancelled (ordered again for fresh assessment in subsequent years) and in 765 cases of 2013-14 and in 1,628 cases of 2014-15 involving an amount of ₹ 1,961 crore and ₹ 6,070 crore respectively appeals were preferred by the dealers. Thus, a major portion of the cases remained undecided. Had the Department evenly distributed the disposal of the cases throughout the period, the quality of the assessment could have improved and the chances of re-assessment /going in appeal could have been minimised.

A few illustrative cases of Pune division detailing the impact of such delayed assessments are discussed below:

- A company that was auctioned by a nationalised bank in February 2012, was assessed for the periods 2005-06 and 2008-09 in March 2013 and for the periods 2006-07 and 2009-10 in March 2014 on best judgment basis. The period 2007-08 had not been assessed till March 2014. The periods of assessment were assessed in the time-barring years in spite of the fact that the company had already been auctioned. Thus, due to the delay in the assessment, recovery of the assessed dues amounting to ₹ 10.89 crore could not be made and the chances of its collection now appear remote.
- In another case of a tax defaulter from 2005-06 onwards, the Department initiated assessment proceedings only in 2010. The company was wound up in June 2011. The Department assessed the dealer for the periods from 2005-06 to 2012-13 in June and November 2013 raising the dues of ₹ 263.82 crore. However, the properties had already been taken possession of by the lending banks in April 2012 and the departmental efforts to take over the dealer's properties were challenged by the bank. Thus, due to the delayed assessment and attachment, recovery of tax dues of ₹ 263.82 crore appeared remote.

The ACS (FD) stated during the exit conference that in the initial years after introduction of VAT, very few audits/assessments were carried out and due to subsequent increase in LTU dealers, there were arrears in assessment. However the reply was silent about the future measures likely to be taken to settle all these cases. Since LTU branch covers the major tax-payers of the state and provides single window facility to these tax-payers, it is in the interest of revenue if the assessments are spread evenly in a regular order and are not finalised in haste.

2.4.9 Delay in disposal of cases and poor recovery of tax dues in Business Audit branch

As per the departmental circulars the objective of the business audit branch was to close the gap between tax declared and VAT legally due and to improve the tax compliance by the dealers.

⁹ Information of 2014-15 not furnished.

Prior to 2012, the cases for Business Audit were selected from the database of the dealers by applying the criteria decided by a designated committee. After the formation of EIU in 2012 and availability of electronic dealer tax data, the cases for audit/assessment have been selected scientifically, based on electronic data received from dealers. Thus, the cases selected for Business Audit is based on the perceived tax risks associated with the dealers.

The details of audit/assessments completed by the Department during 2010-11 to 2014-15 are as indicated in **Table 2.4.9 (1)**.

Table 2.4.9 (1)

Assessment Year	Disposal of Total No. of cases
2010-11	6,355
2011-12	5,130
2012-13	7,762
2013-14	34,517
2014-15	48,502

(Source:- information furnished by the Department)

We analysed the tax recovery status of these dealers and found that the percentage of recovery was very small as shown in **Table 2.4.9 (2)**

Table 2.4.9 (2)

Assessment Year	Additional demand raised	Amount recovered	per cent of recovery	Appeal	Dealers not traceable
	No. of cases	No. of cases		No. of cases	No. of cases
	Amount (₹ in crore)	Amount (₹ in crore)		Amount (₹ in crore)	Amount (₹ in crore)
2010-11	5,249	3,697	31.08	--	--
	164.34	51.09			
2011-12	4,826	1,425	7.00	--	--
	405.47	28.39			
2012-13	7,745	1,866	28.16	453	4
	269.99	76.03		57.79	0.29
2013-14	33,805	6,409	2.00	2,091	466
	8,002.56	157.05		645.77	239.68
2014-15	41,268	8,879	3.50	9,771	858
	6,123.61	215.62		1,709.30	120.43

(Source:- information furnished by the Department)

The recovery of amounts against the demand raised was very meagre during 2013-14 and 2014-15 and it was less than four *per cent*. The number of cases in appeal also increased from 453 in 2012-13 to 9,771 in 2014-15.

Further, the number of dealers not traceable increased from four in 2012-13 to 858 in 2014-15. Thus, the delayed disposal of cases provided an opportunity to the dealer to escape and evade tax. The ACS (FD) accepted the audit findings during the exit conference.

Refund and Refund Audit Branch

Refund and Refund Audit Branch (RRA Branch) is entrusted with the task of timely finalisation of the refund claims and to ensure the validity and accuracy of claims.

The process of claiming refund starts from filing an application in Form 501 by a registered dealer. On receipt of such application the RRA Branch verifies the authenticity and correctness of the refund claims with reference to the returns filed by the claimant and the books of accounts furnished. This verification by the RRA Branch is also known as Refund Audit. In case the claimant dealer does not agree with the findings of the Refund Audit, the RRA Branch assesses the claim under Section 23 of the MVAT Act and issues a formal assessment order to the claimant.

The due dates of disposal of refund applications are as stated below:

Period	Due date of disposal
Up to 2008-09	30/09/2011
2009-10	31/03/2013
2010-11	31/03/2014
2011-12	31/03/2015

As per Section 52 of the MVAT Act, where refund of any tax becomes due to a dealer, he shall subject to rules, if any, be entitled to receive, in addition to the refund, simple interest at the rate of 0.5 *per cent* / per month prescribed under Rule 88 of the MVAT Rules on the amount of refund for the period commencing on the date following the last date of the period to which the refund relates and ending on the date of the order sanctioning the refund or for a period of twenty four months, whichever is less. However, as per proviso to the Section 52, such interest shall not be granted towards any refund granted under Section 51.

Under Section 23 (11)&(12) of MVAT Act, if a dealer makes an application for cancellation, within thirty days of service of the assessment order, the same may be cancelled (F-317) and a fresh assessment order has to be passed within 18 months from the date of service of cancellation order. During scrutiny of reports relating to four selected divisions the following issues were noticed:

2.4.10 Non-granting of refunds within prescribed period

Under Section 51 of the MVAT Act, the Commissioner, on receipt of the refund application (Form 501) as per the return filed by the dealer, may grant refund within 18 months (as amended from 1 May 2011).

Before granting refunds, the assessing authorities are required to visit the premises of the dealers. The Commissioner of Sales Tax fixes the targets for such visits and for granting of the refunds. The target and achievement for number of visits to be conducted during 2011-12, refund audits completed etc. furnished by the Department is as shown in **Table 2.4.10 (1)**.

Table 2.4.10(1)

No. of Visits		Refund audits completed		Pendency of Refund Applications	
Target	Achievement	Target	Achievement	No. of cases	Refund amount involved
6,726	2,463	9,348	2,532	20,632	₹ 2,438 crore
36 per cent		27 per cent			

Analysis of the above information revealed that as against the prescribed audit visits to be completed (up to March 2012) for grant of refunds, the divisions were able to achieve only 36 per cent of visits and 27 per cent of refund audits were completed against their targeted refund audits, resulting in non-disposal of 20,632 applications of refunds involving refunds amounting to ₹ 2,438 crore.

Thereafter, from 2012-13 the refunds were granted predominantly through assessment. However, the pendency of refund applications persisted and their age-wise pendency from 2011-12 to 2014-15 after the prescribed time limit is as shown in **Table 2.4.10(2)**.

Table 2.4.10 (2)

Pendency of cases as on	Age-wise pendency	No. of cases	Refund amount involved (₹ in crore)
Cases pending as on 31/03/12 (upto period 2008-09)	0 to below 6 months		
	6 – below 18 months	22,480	1,416.51
	18 – below 30 months		
	Above 30 months		
Cases pending as on 31/03/13 (upto period 2009-10)	0 to below 6 months	11,466	958.70
	6 – below 18 months		
	18 - below30 months	8,191	567.26
	Above 30 months		
Cases pending as on 31/03/14 (upto period 2010-11)	0 to below 6 months	6,618	731.47
	6 – below 18 months	1,037	132.94
	18 - below30 months		
	Above 30 months	7,351	461.41
Cases pending as on 31/03/15 (upto period 2011-12)	0 to below 6 months	4,464	628.29
	6 – below 18 months	2,200	328.68
	18 - below30 months	1,427	179.55
	Above 30 months	4,055	198.84

From the above statistics, it can be seen that pendency of refund applications persisted/continued during all the periods from 2011-12 to 2014-15 even after the prescribed time limit ranging from six months to above 30 months.

The ACS (FD) stated in the exit conference that seventy per cent of the pending refund applications were for amounts below ₹ five lakh. He further

stated that due to huge mismatches in purchaser-supplier transactions, the corresponding input tax credit (ITC) verification process was delayed which contributed to delay in granting refunds and pendency in disposal of refund applications. It was also stated that part refunds had been granted to dealers.

Avoidable payment of interest:- Due to delay in processing of refunds, the Department paid an interest of ₹ 143.99 crore in 10,890 cases during the periods between 2012-13 and 2014-15 as shown in **Table 2.4.10(3)**.

Table 2.4.10(3)

(₹ in crore)				
Particulars	Year in which Interest paid			Total
	2012-13	2013-14	2014-15	
No. of cases	2,503	3,163	5,224	10,890
Interest Amount	20.164	44.693	79.13	143.99

The payment of interest could have been avoided, had the Department disposed of the refund applications within the stipulated time.

2.4.11 Increase in the cancellation of the Refund assessments

As per the information furnished by the Department the number of cases where assessments of refund cases were cancelled is mentioned in the following **Table 2.4.11**.

Table 2.4.11

(₹ in crore)					
2012-13		2013-14		2014-15	
No. of cases	Refund. amount	No. of cases	Refund. amount	No. of cases	Refund. amount
1,504	101	8,276	532	8,007	1,624

It would be seen from the above that the number of assessments cancelled registered an increase of over 500 per cent in 2014-15 as against the assessments cancelled in 2012-13.

The Departmental records further revealed that during 2013-14, 891 cases involving an amount of ₹ 343.75 crore were pending in appeal whereas during 2014-15 the cases in appeal increased to 1,898 involving an amount of ₹ 1,243.29 crore.

From the above observations it is evident that the Department has been unable to grant refunds due to dealers within the prescribed periods, delay in processing refunds has resulted in payment of interest to dealers, restoration of cases for fresh assessments and increase in number of appeals. It is recommended that the Department may strengthen the internal control mechanism for timely payment of refunds.

2.4.12 Meagre recovery of tax dues in Issue Based Audit

EIU is responsible for analysis of electronic data available in the MAHAVIKAS. The deficiencies noticed by it regarding declarations,

concealment of sales/purchases and wrong set-off claims by the dealers are sent to the concerned wings for corrective actions. This audit called Issue Based Audit (IBA) commenced from March 2012 and is conducted as per Sections 22 and 23(5). It should be concluded within three months from the initiation of proceedings.

The details of cases audited under IBA, risk involved and recovery made there under in the four divisions are shown in **Table 2.4.12**.

Table 2.4.12

Year	Cases available for IBA		Total Recovery made	Percentage of recovery made
	No. of cases	Risk amount involved		
2013-14	1,24,222	4,427.96	454.08	10.25
2014-15	92,949	3,175.48	431.43	13.58

From the above table it can be seen that actual recoveries against the risks identified was 10.25 per cent and 13.58 per cent during 2013-14 and 2014-15 respectively.

Audit conducted a detailed examination of the selected cases in two divisions to ascertain the extent of recovery in IBA cases as mentioned in the following paragraphs.

- In Business audit wing of Pune division, we selected 334 IBA cases conducted during 2013-14 having tax risk of ₹ 5 lakh and above. We found that in 229 cases out of these cases relating to different periods between 2009-10 and 2010-11, the Department had raised additional demand of ₹ 36.88 crore out of which ₹ 15.82 crore was on account of best judgment basis. As against this, an amount of ₹ 5.07 crore only has been recovered and an amount of ₹ 31.81 crore was still pending for recovery. Thus, recovery was only 14 per cent of the tax dues.
- Scrutiny of 18 IBA cases of Nashik division (for the periods 2008-09 and 2009-10) selected during 2012-13 and 2013-14 revealed that in 15 cases no recovery had been done and in three cases even the process of recovery had not been initiated. Thus, an amount of ₹ 38.18 lakh was still pending for recovery.

Though the concept of IBA is appreciable, the Department needs to enforce measures for affecting more recovery so that the desired results are obtained.

The ACS (FD) stated in the exit conference that it was moving towards a single window system wherein such problems were expected to be resolved.

Investigation branch

Investigation Branch of the STD is the functional unit for investigating the cases relating to evasion of taxes. The branch, in respect of suspected cases initiates proceedings u/s 64(1) of the MVAT Act wherein it has been empowered to visit such dealers, search their premises, and scrutinize documents and papers involving evasion of tax. In cases where dealer agrees to pay the amount of evaded taxes involved, cases are closed under the order

of the competent authority. However, in cases where the dealer does not pay the taxes, he is assessed under the relevant provision of the Act and demand for payment of taxes is raised.

Amongst the various objectives of the Investigation branch is;

- a) To detect and investigate suppression / tax evasion.
- b) To detect frauds and prevent tax evasion.
- c) To create awareness among the tax evaders and take exemplary action to prevent the possible tax evasion by way of registering offences.

Further as per internal circular No. 24A of 2007, it was instructed that, in respect of periods starting on or after 1st April 2005, the assessment should be completed in the Investigation Branch itself.

2.4.13 Inadequate performance of Investigation Branch

Scrutiny of reports and records of selected divisions revealed that there was pendency at each and every stage of the investigation.

- **Complaints:** KKPI reports are being generated for the complaints received and action taken thereof. As per the information furnished, 720 cases were pending for action as on March 2015 as mentioned in **Table 2.4.13 (1)**.

Table 2.4.13 (1)

Year	Opening balance	Additions	Total No. of complaints available during the year	Disposal	Action yet to be taken
2012-13	1,741	1,253	2,994	1,078	1,916
2013-14	1,842	339	2,181	1,260	921
2014-15	911	124	1,035	315	720

It can be seen from the table that the closing balance of any year did not match with the opening balance of the following year, which depicted irregular maintenance of records. The figures need reconciliation. The branch does not prepare age-wise pendency reports of the pending complaints. However, it was found that 596 cases were pending for more than a year and delay in disposal of these complaints may affect the investigation process.

- **Investigation visits:** The visits are required to be made in the cases found suspicious or on receipt of complaints or found otherwise with the approval of the Commissioner. According to Departmental Manual, investigation visits should be made, as far as practicable, within three days or at the most within seven days, after the approval of the Commissioner. A report in this regard is required to be generated and sent to the higher authorities.

Scrutiny of records revealed that during 2013-14 and 2014-15 1,528 cases were approved for investigation visits out of which only 1,072 visits were

conducted as on 31 March 2015. Thus, 456 visits were pending, out of which 410 visits were pending for more than one month as against the maximum prescribed period of seven days.

- **Delay in finalization of the Investigation cases:**

As per the investigation manual if the dealer accepts the investigation findings and pays the tax then investigation should be completed within three months, in the remaining cases the investigation should be completed as far as possible within a year.

Scrutiny of records revealed that the percentage of cases closed¹⁰ during 2011-12 to 2014-15 gradually decreased to 3.24 *per cent* while the increase in cases pending finalization was 79 *percent* as mentioned in **Table 2.4.13(2)**.

Table 2.4.13(2).

Year	Opening balance	Addition of cases	Total	Cases closed	Pending cases	Percentage of closed cases
2011-12	2,533	1,076	3,609	207	3,402	5.74
2012-13	3,403	1,052	4,455	261	4,194	5.86
2013-14	4,199	375	4,574	220	4,354	4.80
2014-15	4,354	328	4,682	152	4,530	3.24

Impact of the delay in finalization of the cases:- The delay in finalizing the investigation process resulted in non-tracing of 300 dealers having outstanding amounts of ₹ 256.79 crore, and in 24 other cases involving dues of ₹ 78.14 crore no property was available for recovery. A few instances of delays in finalization of investigations are mentioned in the following paragraphs:

- In two units in Mumbai Division, assessments of 55 cases relating to 30 dealers were finalized between April 2012 and March 2014 with delays ranging from 3 months to 27 months after time limit of one year prescribed for finalization of investigation.
- In 16 cases relating to nine dealers it was noticed that their assessments were finalized on the basis of best judgment between April 2012 and March 2014 with delays ranging from 4 months to 22 months after time limit of one year prescribed for finalization of investigation. Thereafter in all these cases, the dealers applied for cancellation of assessment orders and the same has been accepted by the assessing authorities.

Thus, pendency and delay in investigation process noticed at every stage i.e., action taken on complaints, conducting visits and finalization of investigation have provided an opportunity to the dealers to close down the business and escape detection by the tax authorities. The Government may take immediate remedial measures. A few are mentioned as follows:

¹⁰ Closed cases:- The dealer accepted the investigation findings.

- The process of assessment needs strengthening. The assessment of cases may be spread uniformly so that there is no rush of finalization of cases at the fag end of the limitation period of assessment and quality of assessment is maintained.
- Government may direct the Department to take appropriate steps to improve the currency of audits/assessments through proper planning and implementation so as to protect as well as enhance Government revenue, and to provide timely and quality service to the dealers.

C. Collection of the revenue by Recovery Branch

The objective of the Recovery Branch is to recover arrears by taking recovery actions in the cases referred to it under Act (s) administered by the STD.

2.4.14 Recoveries against short-filers of taxes

Under the MVAT Act, every registered dealer has to file correct, complete and self-consistent returns. The dealers who have paid tax less than the tax payable declared in their return are treated as short-filers.

As per the information furnished by the Department in selected divisions as on March 2015, an amount of ₹ 2,416.02 crore was pending in respect of 1,68,831 returns filed by dealers that had been declared as short filers. Out of this, an amount of ₹ 753.04 crore pertained to more than five years. Age-wise pendency of amounts due from short filers is mentioned in **Table 2.4.14**.

Table 2.4.14

Age of pendency	Amount involved (₹ in crore)
5 years and above	753.04
4-5 years	311.38
3-4 years	281.30
2-3 years	181.50
1-2 years	314.25
Up to one year	574.55
Total	2,416.02

The cases were sent to the Recovery branch as discussed in the following paragraphs:

2.4.15 Recovery of the dues raised by the Department

Scrutiny of the reports of selected divisions revealed that 1,63,358 cases were sent to the recovery branch for recovery. Out of these no recovery action had been initiated in 1,27,798 cases and in 35,560 cases recovery was pending at various stages. The division-wise breakup as on March 2015 is mentioned in **Table 2.4.15**.

Table 2.4.15

(₹ in crore)				
Name of the Division	Pending action		Available for recovery	
	No. of cases	Amount	No. of cases	Amount
Mumbai	1,06,275	383.49	7,144	589.74
Thane	4,116	145.16	4,890	178.24
Pune	0	0	1,557	84.15
Nashik	17,407	39.59	21,969	136.28
Total	1,27,798	568.24	35,560	988.77

We also noticed that in 161 cases with recoverable amount of ₹ 20.93 crore, dealers were not traceable. The age wise pendency of the above recoveries which was being reported up to 2011-12 had been discontinued thereafter.

The following lapses were noticed during the test-check of the cases pending for recovery:-

- In Pune division, 11 dealers were assessed during 2013-14 for the periods 2006-07 and 2008-09. The cases were finalised in their time barring year and additional demand of ₹ 4.16 crore was raised. All these dealers were not traceable.
- In Nashik division, it was noticed that seven dealers were assessed for periods from 2005-06 to 2009-10 in fag end of their time-barring period i.e. 2012-13 and 2013-14 and additional demand of ₹ 2.40 crore was raised. Out of these, one dealer was not traceable and in the remaining cases, recovery through arrears of land revenue was in progress.

Had the Department finalised these assessments earlier the chances of the dealers becoming untraceable would have been minimised.

It is recommended that the Department may consider taking measures for prompt finalisation and prompt recovery of dues by initiating action on priority basis.

2.4.16 Non-collection of tax due to finalization of the assessment after the cancellation of RCs

During scrutiny of records in Mumbai Division, we noticed that in 20 cases, assessments of the dealers were carried out after the cancellations of RCs. The assessments had been carried out after delays ranging from eight months to 82 months and additional demands of ₹ 10.93 crore was raised. In none of the cases the dues could be realized as out of these 20 dealers, two dealers were not traceable, two dealers were not available at their declared place of business, and recovery action had not been initiated in the remaining cases. A few cases are mentioned in Table 2.4.16.

Table 2.4.16

Dealers' name & TIN	Assessment period	RC cancellation date	Assessment date	Assessment dues	Delay in assessment
Indu Commercial Corporation 27580000890V	2005-06	01-04-2007	10-06-2013	8,53,30,613	74 months
Adma Engineers & Logistics Private Limited 27850534387V	2009-10	01-04-2011	18-03-2014	59,71,890	36 months
Globe Scientific Surgical 27180260876V	2005-06	01-08-2006	30-05-2013	31,35,594	82 months
Suchitra Packaging Pvt. Ltd 27460006388V	2005-06	01-04-2010	22-04-2013	21,42,806	36 months
Jayesh Enterprises 27160663146V	2009-10	25-02-2010	27-03-2014	13,02,132	49 months
M/S. Ace Inc 27410110351V	2005-06	01-04-2007	26-02-2013	5,21,105	71 months
Rajgiri Metal Corporation 27640069533V	2009-10	01-10-2010	13-03-2014	4,76,194	41 months
M.S.S. Corporation 27570737465V	2009-10	30-09-2010	01-02-2014	4,52,537	40 months

It would be seen from the above table that assessments were made by the assessment wing after a lapse of 3 to 7 years from the date of cancellation of RC by the registration branch. This indicates that there is no co-ordination between the two branches to ensure prompt assessment and collection of taxes and to prevent the dealers from absconding or evading tax.

The Government may direct the Department to protect revenue by strengthening its internal controls and ensure proper co-ordination between the branches so that the assessments are promptly finalized and demands are raised without any delay.

2.4.17 Input tax credit (ITC)

(a) Allowance of ITC in contravention of tax provisions

As per Section 48(5) of the MVAT Act, the amount of set-off or input tax credit (ITC) on purchase of goods should not exceed the amount of tax in respect of the same goods, actually paid into the Government treasury. The dealers whose annual turnover of sales or purchases exceeded ₹ 60 lakh had to get their accounts audited by a Chartered Accountant (CA) and had to file an audit report regarding the same in Form 704 electronically. Form 704 includes annexures J (Section 1) (J1) and J (Section 2) (J2) wherein the dealer's customer-wise sales and supplier-wise purchase details respectively along with

the tax involved in these sales and purchases transactions are detailed TIN-wise.

From the financial year 2008-09 onwards, dealers ITC verification is being carried out electronically. For verifying a dealer's ITC claim, his tax paid claim in Annexure J2 is matched electronically with his suppliers tax collected claim in Annexure J1 on the basis of the TINs mentioned in these annexures. The ITC claim was being allowed to the extent of tax amount matched and disallowed to the extent of unmatched tax amount.

The STD vide their Circular No. 1A of 2013 dated 11 January 2013 provided that in case of mismatches,

- If ITC matches in case of top ten suppliers or the suppliers covering at least 50 *per cent* of the ITC (whichever is more), then it would be assumed that rest of the ITC claimed by the dealer was matched.
- If amongst the top ten suppliers, the ITC in respect of top six matched and those of remaining four suppliers did not match then, the unmatched transactions would be verified through the ledgers of the suppliers or through any other method that was satisfactory to the assessing authority. If transactions of those four suppliers are also found to be matching, then it would be assumed that the balance ITC has also matched.

From the above circular instructions it is evident that to address the large number of mismatches, the condition for grant of ITC as laid down in the Act has been contravened as the Act stipulates payment of the entire amount of tax before allowing ITC.

The test-check of assessment cases of 151 dealers in the four selected divisions (out of total 1,996 dealers to whom ITC of ₹ 615.16 crore was granted) revealed that ITC of ₹ 69.89 crore was granted as per the internal circular in contravention of the provisions of the Act to all these dealers, as shown in **Table 2.4.17(a)**.

Table 2.4.17(a)

Assessment period	Test-checked cases where ITC granted as per internal circular		
	No of dealers	No of suppliers	ITC amount (₹ in crore)
2008-09	45	88	22.76
2009-10	60	134	31.62
2010-11	33	70	10.51
2011-12	13	25	5.00
Total	151	317	69.89

Since the circular issued involves assumptions and partial verification of remittances which will have financial implications that may affect the Government revenue adversely, **it is recommended that a system may be developed which will address the mismatches and is in accordance with the provisions of the Act.**

(b) Non-raising of the issues relating to mismatch of ITC

The EIU identifies the issues for being resolved by the assessing authorities under IBA. During audit in the four selected divisions, we observed that, of the dealers proposed for IBA, 6,807 dealers involving ITC of ₹ 162.06 crore had issues relating to ITC mismatch. Our test-check of 136 such dealers revealed that ITC mismatch amounting to ₹ 43.96 crore had not been flagged by the EIU wing in respect all these dealers. Since ITC mismatch involves a high risk and the chances of excess claim of ITC cannot be ruled out, it should have been flagged and addressed by the STD. The details of ITC mismatches are given in **Table 2.4.17(b)**.

Table 2.4.17(b)

Assessment period	Test-checked cases where ITC mismatch not flagged by EIU		
	No of dealers	No of suppliers	ITC amount (₹ in crore)
2008-09	27	33	9.74
2009-10	48	77	17.38
2010-11	36	50	10.27
2011-12	25	32	6.57
Total	136	192	43.96

(c) Non-raising of the issues relating to mismatch of purchases

Cross verification of the dealers' purchase details in Annexure J2 with the suppliers sales details given in the suppliers Annexure J1 revealed instances where dealers' have claimed purchases lesser than what their suppliers had shown as sales to these dealers. Though, the ITC is limited to the amount of purchase shown by the dealers in their accounts, the mismatch is fraught with the risk of concealment of purchases by the dealers. The purchase-sale mismatch had not been considered as a risk parameter while assessing the dealers. The mismatch details in respect of assessments and IBA cases are as shown in following **Table 2.4.17(c)**.

Table 2.4.17(c)

Assessment period	Assessments			IBA		
	No of dealers	No of suppliers	Difference between purchasers and suppliers VAT (₹ in crore)	No of dealers	No of suppliers	Difference between purchasers and suppliers VAT (₹ in crore)
2008-09	10	24	11.63	4	4	0.68
2009-10	14	15	6.93	9	9	1.04
2010-11	15	21	4.60	13	13	2.33
2011-12	5	6	0.92	11	12	3.99
Total	44	66	24.08	37	38	8.04

The Government may direct the Department to put in place effective deterrent measures to prevent incorrect/improper submission of

information by dealers and risks associated with ITC mismatch be addressed before finalization of cases.

2.4.18 Conclusion and Recommendations

Though the Government and the STD has been improving the system of registration, assessment and collection of the VAT constantly still there are gaps in the system that hinder the realization of revenue collection. The Performance Audit revealed a number of such lapses and lack of internal controls that require immediate remedial action. A few important observations and the proposed recommendations are mentioned as below:

We noticed that mechanism for obtaining inter and intra departmental data/information for bringing unregistered dealers within the tax net did not exist. Though 11,601 dealers were detected as URDs, only 6,730 dealers were registered during this five year period. Thus, the remaining dealers are yet to be brought within the tax net.

- **The Government may direct the Department to maintain a database of surveys conducted and put in place effective mechanism for obtaining inter and intra departmental data/information for bringing unregistered dealers within the tax net.**

In the Advisory branch which was formed with a view to verify the information furnished by newly registered dealers, ascertain their revenue reliability and appraise the dealers about tax provisions, filing returns etc.; pendency ranging up to 80 *per cent* in conducting advisory visits in case of dealers registered up to 31 March 2015 was noticed. There was pendency ranging from 65 *per cent* to 91 *per cent* in disposal of URD periods during 2010-11 to 2014-15 in four test checked divisions.

- **The Government may direct the Department to take measures to ensure that genuineness and revenue reliability of the dealers are established at the earliest by conducting advisory visits timely and also ensure that the Government revenue is protected by prioritizing assessments of unregistered periods.**

In LTU Branch which was formed to exclusively assess major taxpayers, there was rush in finalisation of cases at the end of their limitation period. Audit found that 57 *per cent* of the cases assessed during 2013-14 were cancelled and 765 cases of 2013-14 involving an amount of ₹ 1,961 crore and 1,628 cases of 2014-15 involving an amount of ₹ 6,070 crore were in appeal indicating therein that the assessments were finalised in haste.

- **The Government may direct the Department to take appropriate steps to improve the currency of audits/assessments by spreading the assessments uniformly across the years so as to protect and enhance Government revenue, and to provide timely and quality service to the dealers.**

Though the concept of issue based audit is appreciable but actual recoveries against the risks identified was 10.25 *per cent* and 13.58 *per cent* during 2013-14 and 2014-15 respectively.

- **The Department needs to enforce measure for effecting better recovery so that the wing can achieve the desired results for which it was created.**

In the Investigation Branch pendency and delay in investigation process was noticed at every stage i.e., action taken on complaints, conducting visits and finalization of investigation have provided an opportunity to the dealers to close down the business and escape detection by the tax authorities. The process of assessment needs strengthening. The assessment of cases may be spread uniformly so that there is no rush of finalization of cases at the fag end of the limitation period of assessment and quality of assessment is maintained.

- **Government may direct the Department to take appropriate steps to improve the currency of audits/assessments through proper planning and implementation so as to protect as well as enhance Government revenue, and to provide timely and quality service to the dealers.**

Though the objective of the recovery branch was to recover arrears by taking recovery actions in the cases referred to it under the Act administered by the STD, audit noticed that an amount of ₹ 2,416.02 crore was pending in respect of 1,68,831 short filer cases. Out of this, an amount of ₹ 753.04 crore pertained to more than five years. There was lack of co-ordination between the various branches of the Department that delayed the recovery of the Government dues.

- **It is recommended that the Department may consider taking measures for prompt recovery of dues by initiating action on priority basis in accordance with the provisions of the Act.**

During the exit conference, the Additional Chief Secretary accepted all the recommendations.

2.5 Other audit observations

Discrepancies noticed in cases finalised under Maharashtra Value Added Tax Act, 2002 (MVAT Act)

Our scrutiny of the assessment records finalised under Bombay Sales Tax Act, 1959 (BST Act), Maharashtra Value Added Tax, 2002 (MVAT Act), Central Sales Tax Act, 1956 (CST Act) in the Sales Tax Department revealed cases of non-observance of provisions of Acts/Rules, non/short levy of tax, irregular grant of exemptions and other cases as mentioned in the succeeding paragraphs in this Chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of Assessing Authorities (AAs) are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till we conduct audit. There is need for the Government to improve the internal control system including strengthening of internal audit.

2.5.1 Short levy of tax

DCST, E-609, LTU, Mazgaon

Incorrect computation of tax payable on works contract resulted in short levy of tax of ₹ 70.89 lakh

As per Section 6 of the Maharashtra Value Added Tax Act, 2002, there shall be levied a sales tax on the turnover of sales of goods specified in different schedules at the rates set out in the respective schedule. Cement is Schedule 'E' material which is taxable at 12.5 *per cent*. As per Rule 58(2) of the Maharashtra Value Added Tax Rules, 2005, in case of works contracts, tax is payable on the value of goods involved in the execution of works contracts at the rates applicable to such goods under the Act.

Scrutiny of the records in July 2014, revealed that the sales turnover of a works contractor, during 2008-09 was determined at ₹ 89.71 crore, of these out of sales valued at ₹ 20.03 crore relating to consumption of cement was taxed at the rate of 12.5 *per cent* on and the remaining sales were taxed at the rate of four *per cent*. However, it was seen from Para 10 of the Notes on Account appended to the Balance Sheet for 2008-09 in respect of the dealer that purchase value of cement consumed in works contract alone was ₹ 28.02 crore which was more than sale value of ₹ 20.03 crore shown in the returns. Considering the profit element of 1.25 *per cent* on trading account, the sale value of the consumed cement would be ₹ 28.37 crore. Thus, the turnover of ₹ 8.34 crore was incorrectly taxed at four *per cent* instead of 12.5 *per cent*. This resulted in short levy of tax of ₹ 70.89 lakh.

After this being pointed out in August 2014, the Department did not accept the observation and stated (April 2015) that there was a typographical error in the dealer's account which has been rectified and the tax has been worked out correctly.

The reply furnished by the Department is not correct as the accounts submitted by the dealer were certified by CA. He had claimed ITC in accordance with CA certificate. Besides, no supporting documents of the typographical error were furnished to audit.

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

2.5.2 Non-levy of penalty on *hawala* transactions

Deputy Commissioner of Sales Tax, E-626, LTU, Mazgaon

Penalty amounting to ₹ 38.65 lakh was not levied on account of *hawala* transactions

As per Section 29(4) of the MVAT Act 'Where any person or dealer has knowingly issued or produced any document including a false bill, cash memorandum, voucher, declaration or certificate by reason of which any transaction of sale or purchase effected by him or any other person or dealer is not liable to be taxed or is liable to be taxed at a reduced rate or incorrect set-off is liable to be claimed on such transaction, the Commissioner may, after giving the person or dealer a reasonable opportunity of being heard, by order

in writing, impose on him in addition to any tax payable by him, a penalty equal to the amount of tax found due as a result of any of the aforesaid acts of commission or omission’.

During scrutiny (June 2014) of records, we noticed that while assessing a dealer engaged in manufacture, exporter and importer in medicine, the assessing officer had disallowed set-off amounting to ₹ 38.65 lakh on account of purchases made from *hawala* dealers. Set-off claim from *hawala* dealers was originally pointed out by the investigation branch during their visit of place of business of dealer. However, penalty under 29(4) equal to the amount of tax found due was not levied.

After we pointed out the case (September 2014), the Department stated (April 2015) that penalty under Section 29(4) was leviable by an authority before whom the false documents are produced, which in this case was the investigation authority, and hence, in absence of the documents the assessing officer in this case did not have enough grounds to charge the dealer under Section 29(4).

The reply of the Department is not tenable as the facts of *hawala* transactions were available with the Department in respect of penalty to be levied by the assessing officer who was competent authority to levy it. This resulted in non-levy of penalty of ₹ 38.65 lakh.

We reported the matter to the Government in July 2015; their reply has not been received (February 2016).

2.5.3 Short levy of tax due to incorrect allowance of deduction of service tax

Dy. Commissioners of Sales Tax –Large Taxpayers Unit E-634 (Mumbai Division) and E-002 (Nashik Division)

Incorrect allowance of deduction on account of service tax in composition tax scheme resulted in short levy of tax of ₹ 13.15 lakh

As per Section 42(3) of the Maharashtra Value Added Tax Act, 2002 (MVAT Act), where a dealer is liable to pay tax on the sales effected by way of transfer of property in goods involved in the execution of works contract, in lieu of amount of tax payable by him under this act, pay in *lump sum* by way of composition equal to eight *per cent* of the total contract value of contracts other than construction contract, after deducting from the total contract value, the amount payable towards a registered sub-contractor.

During test check of records (January and May 2011) in Mumbai and Nashik Divisions, we noticed that two dealers were allowed deductions on account of service tax amounting to ₹ 1.65 crore during 2006-07 and 2007-08 from their turnover of contract receipts. However, as per Section 42(3), only payment towards registered sub-contractor is allowed to be deducted from the total contract receipts and hence, the deduction allowed in respect of service tax was irregular. This resulted in short levy of tax of ₹ 13.15 lakh.

After this being pointed out in February 2011 and May 2011, the Department accepted the observations and raised additional demand of ₹ 13.18 lakh in October 2013 and March 2014. A report on recovery in these cases is awaited.

We reported the matter to the Government in April and May 2015; their reply has not been received (February 2016).

Discrepancies noticed in cases finalised under the Bombay Sales Tax Act, 1959 (BST Act)

2.5.4 Non-recovery of sales tax dues

Sales Tax dues of ₹ 2.14 crore in two cases were in arrears

Under the Bombay Sales Tax Act, 1959 (BST Act), tax was required to be paid by the assessee in a manner and within the time specified in the notice of demand. In case of failure on the part of the assesses to pay the amount within the prescribed time, the Department could under Section 38(B) of the BST Act which empowers the Commissioner of Sales Tax to exercise all the powers and perform all the duties under the Maharashtra Land Revenue Code, 1966 (MLR Code), to recover the amount which remains unpaid as if it were arrears of land revenue. If the defaulters own property outside the State, the concerned assessing authority is required to issue, under the provisions of the Revenue Recovery Act, 1890, a Revenue Recovery Certificate (RRC) to the Collectors of the Districts of the States in which the defaulters possess properties, to recover the arrears of tax.

(a) Assistant Commissioner of Sales Tax, C-810, Malegaon, Nashik

During test check of recovery files in Nashik Division in November 2013, we noticed that a co-operative spinning mill was in arrears of tax for the periods from 1987-88 to June 1994. The mill went into liquidation in November 1994, but in order to accommodate nearly 300 workers, the State Government allowed (April 1995) the workers to run the mill on Leave and Licence basis as co-operative society. However, the worker's society also defaulted in payment of sales tax dues of ₹ 1.03 crore for the periods from 1995-96 onwards.

The Government allowed (November 2000) the worker's society to repay the dues in installments of ₹ One lakh per month. Ten installments were paid between November 2000 and August 2001 and thereafter the society defaulted on the payments. The Department issued (March 2003) letters to the Liquidator staking claim on dues from the mill amounting to ₹ 5.19 lakh and ₹ 15.33 lakh for the periods from July 1987 to March 1993 and May 1993 to June 1994 respectively, and on dues from the worker's co-operative society amounting to ₹ 1.03 crore for the period from 1995-96 to December 2002. It would be seen from the above that certain months were missing. In April 2004, the Department issued another letter to the Liquidator staking claim on dues from the mill amounting to ₹ 50.16 lakh for the periods from 1993-94 to 1994-95. The basis on which the above dues were worked out was not available on record.

The Liquidator admitted (April 2004) the claim of the Department only to the extent of ₹ 14.84 lakh which was liability of the mills towards sales tax as appearing in the balance sheet of the mill. The reasons for the depiction of lesser amount and the concerned balance sheet were not made available to audit. However, the Liquidator rejected the claim on the worker's society as it

was running its business from the mill premise only on Leave and Licence basis and hence, did not own the property. No further progress in this regard was available on record.

We reported the matter to the Government in March 2015; their reply has not been received (February 2016).

(b) Sales Tax Officer, C-014, Borivali Division

During test check of assessment and other related records (August 2014), we noticed that the registration of a dealer engaged in resale of liquor and beer was cancelled with effect from 15 June 2003 in August 2003. A Sales Tax clearance certificate, that there were no outstanding dues against the dealer as on 31st March 2002, was issued on 29 March 2006. However, the fact regarding the pending assessments for the years 2002-03 and 2003-04 was not mentioned on tax clearance certificate. In February 2013 the notices regarding dues of ₹ 44.09 lakh (2002-03) and ₹ 11.94 lakh (2003-04) were issued subsequent to *ex-parte* assessments of the dealer. However, the revenue of ₹ 56.04 lakh was at stake as the dealer was not traceable.

On this being pointed out (September 2014), the Department stated that notice was issued to the dealer in August 2003, to which the dealer did not respond. Further, there was delay in following up of the case due to major changes in the working set-up of Sales Tax Department on account of transition from Bombay Sales Tax Act to Maharashtra Value Added Tax. During the period from July 2007 to January 2013, many notices were issued to the dealer to which no response was received, and finally the *ex-parte* assessments were carried out in February 2013.

The reply is not tenable because the assessments should have been completed before or immediately after the cancellation of the registration or at the most prior to the issue of the clearance certificate. Due to the belated approach of the Department, revenue of ₹ 56.04 lakh was at stake.

We reported the matter to the Government in April 2015; their reply has not been received (February 2016).

CHAPTER III

STAMP DUTY AND REGISTRATION FEE

3.1 Tax administration

Receipts from stamp duty and registration fee are regulated under the Indian Stamp Act 1899 (IS Act), Indian Registration Act, 1908 (IR Act) and the rules framed there-under as applicable in Maharashtra and are administered at the Government level by the Principal Secretary, Relief & Rehabilitation. The Inspector General of Registration (IGR) is the head of the Stamp Duty & Registration Department who is empowered with the task of superintendence and administration of registration work. He is assisted by Additional Controller of Stamps, Mumbai (ACOS), 10 Deputy Inspector General (DIGs), nine Assistant Inspector General of Registration, six Collector of Stamps (COS) at Mumbai and Mumbai Suburban District (MSD), 34 Joint Director of Registration and COS and 507 Sub-Registrar on District and Taluka levels.

3.2 Internal audit

An effective internal audit wing always acts as a deterrent to the occurrence of any major irregularity. IGR issued guidelines for internal audit through a circular in June 2001. According to these guidelines, the internal audit wing of IGRO consisting of two wings (Desk-10 and Desk-11) was given monthly target to conduct audit of three offices and every DIG of the division has to conduct audit of two offices each in every month. However, no specific target of auditing COS office by IGRO was set. The details of audit conducted by the internal audit wings of IGR are as detailed in **Table 3.2**.

Table 3.2

Year	Target total	Offices Audited			
		Dy. IGR	COS + SOS	Joint SR/SR	Total
2010	72	Nil	Nil	7	7
2011	72	Nil	1	28	29
2012	72	1	11	32	44
2013	72	Nil	4	32	36
2014	72	Nil	2	11	13
Total	360	1	18	110	129

Source: Information obtained from IGR

Thus, the facts indicate that:

- During the year 2010-14, audit was carried out in 129 offices whereas the target set out was 360.
- Percentage of inspection of Dy. IGR and COS+SOS are very less as compared to Joint SR/SR.

3.3 Results of audit

In 2014-15, test check of the records of 211 units of the Stamp Duty and Registration Fees Department, showed non/short levy of stamp duty and registration fees etc. and other irregularities amounting to ₹ 139.38 crore in 699 observations, which fall under the categories given in **Table 3.3**.

Table 3.3

(₹ in crore)			
Sr. No.	Category	No. of observations	Amount
1	Performance Audit on “Integrated Stamps And Registration Information Technology Application (iSARITA)”	1	0.00
2	Short levy due to undervaluation of property	547	127.35
3	Short levy due to misclassification of documents	38	7.39
4	Incorrect grant of exemption of stamp duty and registration fees	85	2.72
5	Non-levy of stamp duty and registration fee	20	1.03
6	Other Irregularities	8	0.89
Total		699	139.38

In response to the observations made in the local audit through Inspection Reports during the year 2014-15 as well as during earlier years, the Department accepted short levy and other deficiencies and recovered in 166 observations involving ₹ 3.72 crore, of which 18 observations involving ₹ 20 lakh were pointed out during 2014-15 and rest during earlier years.

Draft paragraphs on short levy of stamp duty of ₹ 11.19 lakh due to undervaluation of documents in the Offices of the Sub Registrar-III, Akola and Sub Registrar-IV, Haveli, Pune, was forwarded to Department in May 2015. The Department recovered the entire amount (September 2015).

A Performance Audit on “**Integrated Stamps and Registration Information Technology Application (iSARITA)**” and a few illustrative observations involving ₹ 27.69 crore are discussed in the succeeding paragraphs.

3.4 Performance Audit on “Integrated Stamps and Registration Information Technology Application (iSARITA)”

Highlights

Although the Vendor Management System (VMS) was introduced in August 2012, it has deficiencies regarding time tags and logics. Therefore, the VMS was unable to give correct results for levy of penalty as well as failed to monitor the activities of BOT agencies.

(Paragraph 3.4.2.3)

Absence of necessary validation checks resulted in 15,977 documents where e-payment of ₹ 214.73 crore was made, the corresponding e-challans were not defaced. However, all these documents were registered.

(Paragraph 3.4.2.4)

The Annual Schedule of Rates (ASR) which was the backbone for the valuation module was not updated timely in the system. This has resulted into manual valuation of property for the purpose of levy of stamp duty.

(Paragraph 3.4.2.5)

The application lacked necessary control to ensure complete capture of data, resulted into non-storing of stamp duty details in respect of 19,960 documents involving ₹ 40.64 crore in database.

(Paragraph 3.4.3.1)

The application lacked necessary input validation controls that resulted into:

- Storing of multiple entries of same transaction relating to stamp duty paid resulted into reporting of inflated figures to the tune of ₹ 2.91 crore.

(Paragraph 3.4.3.2)

- The application accepts any range of stamp duty which has resulted into reporting of inflated figure of revenue collection to the tune of ₹ 2,950.15 crore.

(Paragraph 3.4.3.3)

- The application was prone to risk of capturing the different PAN number for same person.

(Paragraph 3.4.3.4)

- The application is capturing duplicate/incorrect/blank Government Reference Number.

(Paragraph 3.4.3.5)

- In 93,263 documents of 296 SRs involving registration fees of ₹ 49.24 crore were misclassified as Document Handling Charges.

(Paragraph 3.4.3.6)

The application lacked necessary processing controls that resulted into:

- The system failed to maintain the sequence of registration process as envisaged in documentation of application.

(Paragraph 3.4.3.7)

- The application is prone to risk of registering the documents without proper authority and defeated very purpose of having biometric and digital data.

(Paragraph 3.4.3.8)

- The application failed to maintain reliable and complete data in respect of scanned images of the documents, digital photographs and biometric data of thumb impression of parties and witnesses concerned with the document and non accounting of document handling charges. We noticed that in 47,962 manually registered documents in 222 SRs, though document handling charges amounting to ₹ 2.35 crore were recovered, these were not accounted for in the data base.

(Paragraph 3.4.3.9)

- Refund of stamp duty module is in partially operation due to some lacunas like order of refund is incorrectly generated.

(Paragraph 3.4.3.10)

Though the NIC was providing the software support to the Department at the rate of ₹ 60 lakh per annum as the maintenance cost, no Service Level Agreement (SLA) was entered with the agency.

(Paragraph 3.4.4.1)

Although the application was developed by NIC, Pune, no system documentation and source code was obtained by Department from NIC.

(Paragraph 3.4.4.2)

Due to weak logical security control:

- The operator has got un-authorized privileges to capture data in respect of other SRs.

(Paragraph 3.4.5.1)

- The system was susceptible to the risk of suspected backend changes with no audit trail to locate the event through security logs.

(Paragraph 3.4.5.2)

- The developer of application using live database for testing purpose and stored the test data in the same database.

(Paragraph 3.4.5.3)

- Though the warranty period of hardware procured in 2011 has lapsed, the Department has not taken any efforts to appoint an agency for maintenance of hardware. Thus, the hardware were susceptible to the risk of damage thereby disruption in the working.

(Paragraph 3.4.5.4)

Though there was condition in the contract for execution of the data entry work in the office of the JDR, the volumes of Index-II were allowed to be shifted outside the office premises which resulted in permanent loss of 265 original Index-II records of important documents.

(Paragraph 3.4.6.1)

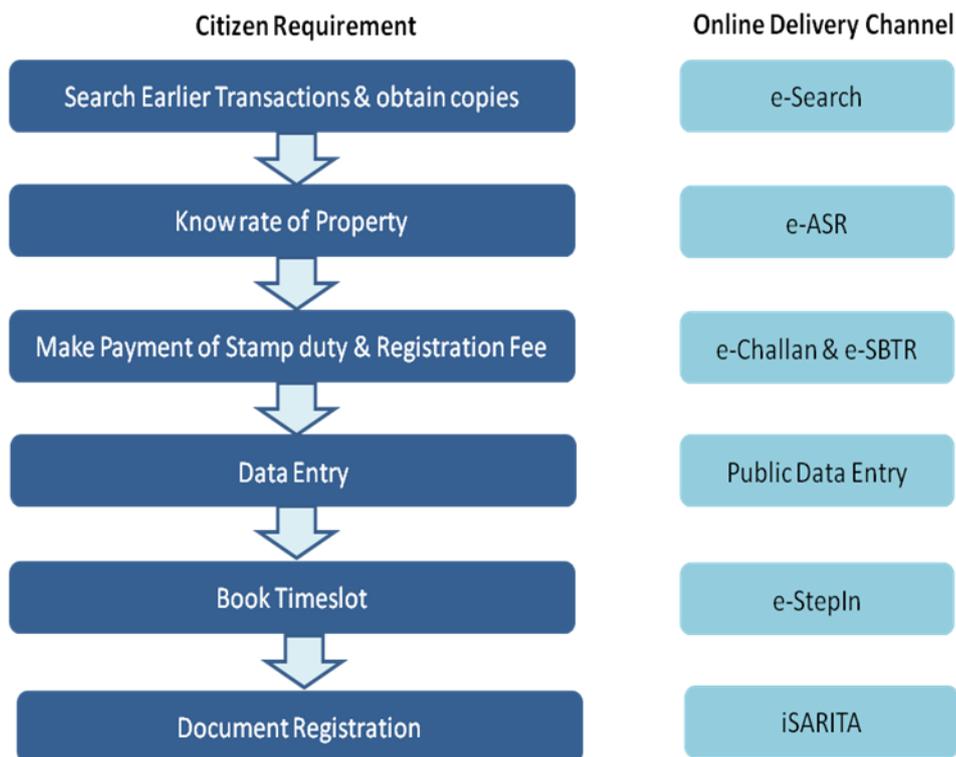
3.4.1 Introduction

Stamp Duty and Registration Fee is the second largest tax revenue of the State. The levy and collection of stamp duty is governed by the Maharashtra Stamp Act, 1958 (MS Act) and Indian Stamp Act 1899 as applicable to the State. The rates of stamp duty leviable on the instruments executed under the Act are mentioned in the Schedule-I of the MS Act. Apart from this, the Department has to store/preserve the registered documents and make them available as and when requested by the public. The Department has repository of such registered documents since 1908.

The Department initiated its e-governance project in 2002 with development of a software application named SARITA (Stamps and Registration Information Technology Application). During the period between 2006 and 2012, SARITA was updated periodically¹ and finally a web based application iSARITA (integrated SARITA) was implemented (July 2012). The iSARITA was developed by National Informatics Center (NIC), Pune. The database server located at Data Center (DC) of Government of Maharashtra, Mantralaya, Mumbai (with disaster recovery (DR) sites at BSNL Mumbai and at NIC Pune) which caters to the citizen's requirement through various modules. Except for Document Registration module, all other modules of iSARITA are accessible to public through internet². The Document Registration module is accessible only to the offices of Registration Department across the State through Virtual Private Network (VPN). Various modules developed by NIC are as detailed below.

¹ implemented SARITA-2 (June 2007) and SARITA-3 (March 2011) application on pilot basis only in five SRs. SARITA-2 in SRO Mumbai-3 and SRO Borivali-7. SARITA-3 in SRO Haveli-8, SRO Haveli-19 and SRO Dhule-1

² URL <http://igrmaharashtra.gov.in>



The operating system used for the server is RED HAT Linux and back end database tool is “PostGres SQL 9.2”. Visual Basic Dot Net (Microsoft) technology is used as front end. The Department appointed two³ agencies on Built-Operate & Transfer (BOT) basis for providing manpower to assist Sub-Registrar in registration process and providing consumables like toner for printers, Compact Disks (CDs) and stationery, along with providing and maintaining lease lines for VPN.

The Process

The workflow of registration process is as detailed in **Table 3.4.1**.

³ M/s. S.M. Computers Pvt. Ltd. (Consortium), Ahmednagar and M/s. Vakrangee Software Ltd., Mumbai

Table 3.4.1

Process of Registration of Documents		
Presentation	The operator captures document related details such as Party details, witnesses, property details etc.	Stamp1 (Presentationdatetime)
Payment of Fees	The operator enters the Stamp duty and Registration fee details. After stamp2, the application generates summary 1 and Receipt of payment made and Document serial number is allotted to document.	Stamp2 (Stamp2datetime)
Admission	The operator captures the photographs and biometric thumb impression of the parties.	Stamp3 (Stamp3datetime)
Identification	The operator captures the photographs and biometric thumb impression of the witnesses. After stamp4, the application generates Summary-2.	Stamp4 (Stamp4datetime)
Final Registration	The SRO authorizes the transaction with his thumb impression (biometric).	Stamp5 (Stamp5datetime)

(Source: Documentation of iSARITA)

The documents registered are identified by a unique document number⁴ wherein the serial numbers of the documents are reset in each calendar year.

Objectives of iSARITA

The objectives of iSARITA as envisaged by the Department were as detailed below:

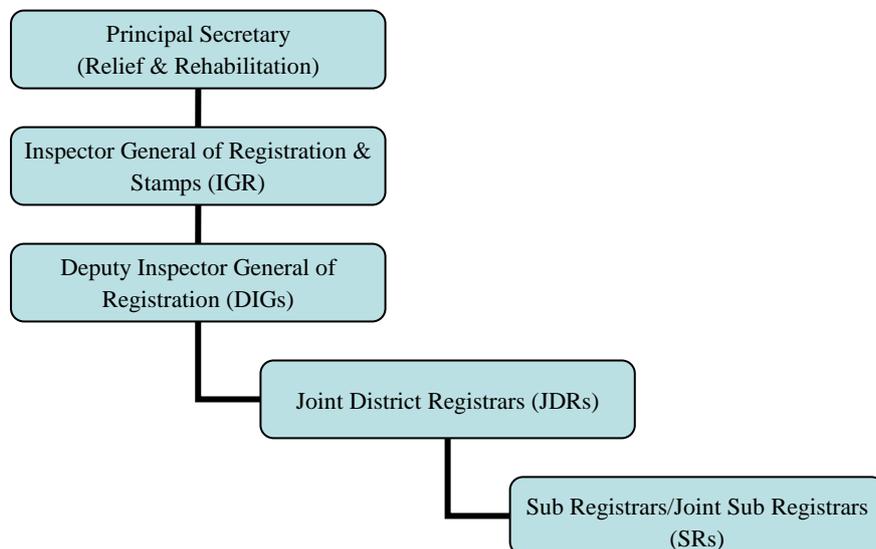
- Centralized data collection for better analysis and other administrative offices decision making;
- Completing the registration process within 20 minutes;
- Centralized e-Storage of data;
- Online payment of the stamp duty and registration fees;
- Online valuation of the property;
- Providing transactional history of the property at the click of the button to prevent frauds;
- To increase transparency;
- Empowering citizen by providing data entry into government records through web portal;
- To prevent public lands being transacted without government permission with the help of negative list;
- To enable identity verification through UID and

⁴ Comprising of Serial number of the document, year of registration and sub registrar office number in which it as registered.

- Linking up/Integration with land records for accurate data transfer and protection of rights.

Organisational setup

The organisational setup of the Department is as below:



Audit Objectives

The audit objectives were to evaluate whether:

- The application achieved its intended objectives, supported the business process and ensured compliance with applicable rules and regulations;
- Necessary organisational controls and system security were in place for effective implementation;
- The input, process and output controls (Application controls) were adequate to ensure data integrity and that it complied with the prescribed rules and procedures; and
- The system provided the checks to be carried out by internal audit wings.

Audit scope and methodology

We analysed the data of iSARITA pertaining to the period June 2012 to December 2014 using SQL queries. Exception reports were cross checked with records available at selected Joint Sub Registrars/Sub Registrars offices and controls were evaluated. Audit sample included four⁵ out of 8 DIGs, six⁶ out of 20 JDRs and 25 out of 103 SRs selected using multistage random sampling method. In addition, the records of Relief and Rehabilitation Department, Government of Maharashtra, Mantralaya, Mumbai and Office of the IGR and Controller of Stamps, Maharashtra State, Pune were also scrutinised. Audit was conducted between January 2015 and June 2015.

⁵ Pune, Mumbai, Latur and Nagpur

⁶ Pune, Kolhapur, Mumbai Suburban, Latur, Nagpur and Nagpur Gramin

The Entry conference was held on 23 December 2014 with Secretary, Relief and Rehabilitation Department (Secretary) and Inspector General of Registration and Stamps, Maharashtra State (IGR) in which the objective, scope and methodology of audit were discussed. The draft Performance Audit Report was forwarded to the Government and IGR in August 2015. The Exit Conference was held on 28 October 2015. The Secretary (R&R), IGR and other senior officers from IGR offices and NICs representatives attended the meeting. The replies given during the exit conference and at the other points of time have been appropriately included.

Audit Criteria

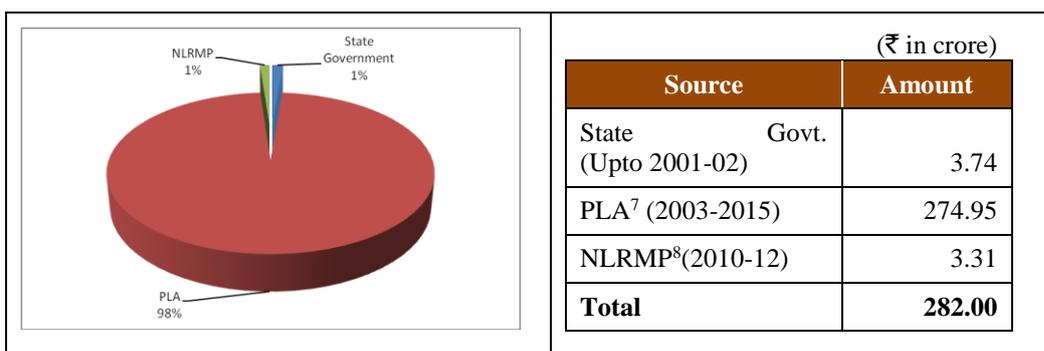
The planning and implementation of iSARITA, data management and monitoring were examined with reference to:

- Service Level Agreement made with the Agencies;
- Departmental Manual and information brochure issued by department;
- The Indian Registration Act 1908;
- The Maharashtra Stamp Act 1958;
- GR's & Circular issued by Government from time to time;
- Generally accepted best IT practices.

Acknowledgement

We acknowledge the co-operation of Principal Secretary, Relief and Rehabilitation Department, IGR and other selected offices in providing the necessary information and records to audit.

Funding of iSARITA project



⁷ The Personal Ledger Account (PLA) was opened in 2001 for computerization of Registration Department.

⁸ ₹ 330.87 lakh spent from funds of the National Land Record Modernisation Program meant for integration of Registration offices with Revenue offices.

Audit findings

3.4.2 Deficiencies in development of iSARITA

3.4.2.1 Inadequate development of Management Information System (MIS) application

We noticed that the following MIS reports envisaged in the application were giving incorrect output. It resulted into no/partial use of application for report generation.

Table 3.4.2.1(A) - MIS Reports for SRs/JDRs/DIGs

Sr. No.	Level	Name of Report	Purpose of Report	Reason for non using
1	SR	Monthly ZP/MC statement	Collection of Zilla Parishad/Municipal Council cess report	Report is generated with error due to village code not properly defined and mapped with report. Also the percentage of cess is calculated incorrectly.
2.	JDR/DIG	Adjudicated documents	The details of adjudicated documents registered.	The adjudication module is not in operation by JDR/DIG offices, because incorrect reports are generated.
3.	JDR/DIG	Refund of Stamp duty	There is error in sanction order generated by the system. The amount to be deducted in case of e-SBTR/e-challans is incorrectly shown. Report also shows incorrect office details.	

Similarly, following MIS were not developed.

Table 3.4.2.1(B)

Sr. No.	Name of Report	Purpose of Report
1	Book-2	Recording the reason for refusal to register the documents
2	Book-3	Register of wills and authorities to adopt
3	Book-4	Miscellaneous Register
4	Memorandum/certification	Intimation of the documents which are registered for the property located in other SR/JDRs jurisdiction.

Hence, the application could not be utilised to its full potential. In exit conference, the Secretary accepted the audit observation and agreed to carry out the necessary modification in the application.

3.4.2.2 Non-development of Modules for Joint District Registrar Offices

JDR being the controlling officer is responsible for assigning login/access rights to SRs under his control, monitoring the number of documents registered, revenue collected, refused cases, adjudication etc., co-ordinate and resolve the hardware maintenance issues noticed in SRs.

However, we observed that no district level reports were available from the system to JDRs. As such, the JDRs were required to compile the reports manually. The JDR, Kolhapur and Mumbai Suburban confirmed the facts.

In the exit conference, the Secretary agreed to carry out the necessary modification in the application.

3.4.2.3 Non-monitoring activities of BOT agencies

As per Service Level Agreement (SLA) executed between IGR and the agencies appointed on BOT basis, the registration process is to be completed within 16 minutes in case of the data entry is done by the general public and 21 minutes in case of data entry is done by the operator of BOT agency. In case of delay in completion of registration process, the agency will be penalised at the rate of five *per cent* per document per minute of delay. If the delay exceeds 20 minutes, no payment will be made to the agency for that document registered. It was further envisaged in the SLA that to monitor the activities and to assess the penalty to be imposed on the agency, a Vendor Management System (VMS) will be developed by NIC, Pune.

We observed that as of April 2015, although the VMS was introduced in August 2012, it has deficiencies regarding time tags and logics. Therefore the VMS was unable to give correct results for levy of penalty. During data analysis, in 13 *per cent* of the registration cases delay was observed.

Further, the Scope of Work defined in SLA included activities like completion of stamp1 to stamp5 process, scanning of documents, burning of CD for the documents scanned, taking out two thumbnail printouts and uploading of the data on server. VMS was also required to monitor these activities. Analysis of the database revealed that in one to 74 *per cent* of the cases, registration process was incomplete i.e. CD not burned, thumbnail printout not taken and image file of document was not uploaded on server.

In the exit conference, the Secretary accepted the facts and assured to carry out the necessary modification in VMS module.

3.4.2.4 Non-defacement of e-challan

The process of e-payment is shown in **Appendix-1**. All e-challans are verified from Government Receipt Accounting System (GRAS) through the facility available in iSARITA application and are defaced. The deface number and the date of defacement gets stored in iSARITA database. The status of e-challan also gets changed to 'defaced' in the database. Data analysis revealed that in 15,977 documents where e-payment of ₹ 214.73 crore was made, the corresponding e-challans were not defaced. However, all these documents were registered. A further scrutiny in 14 SRs revealed that though the e-challans were not defaced in the database, the receipts for payment of stamp duty/registration fees were generated through iSARITA. We observed the following in the iSARITA relating to non-defacement of e-challans:

- The documents were manually registered and the data was uploaded in the database afterwards.
- The system was allowing registration of documents without defacing the e-challans.

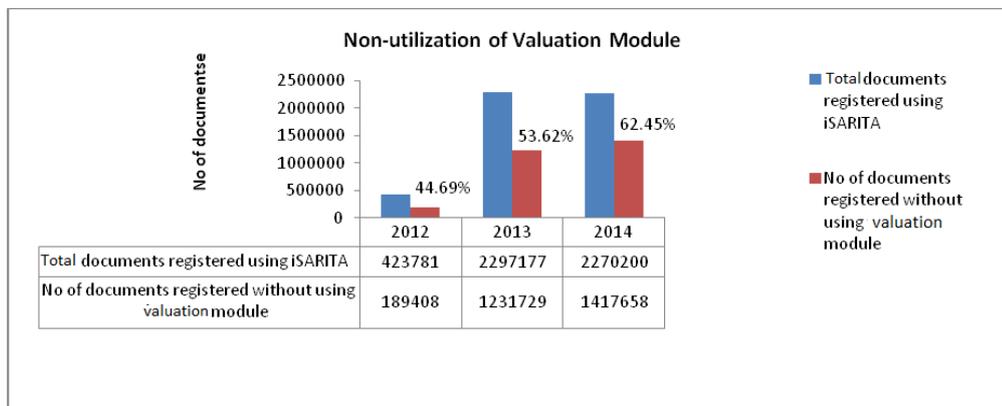
- There were data entry errors in capturing of Government Reference Number (GRN) number of the e-challan.

In the exit conference, the Secretary agreed to rectify lapses in the system of defacement.

3.4.2.5 Online valuation of land/property

The valuation of property for the purpose of levy of stamp duty was done manually.

We observed that though a module was inbuilt in iSARITA for online valuation of the property, the same was not used by the SRs in most of the cases. The graphical presentation of documents registered without using valuation module is detailed below:



Note: Figures of 2012 pertains to the period July 2012 to December 2012

The percentage of non-utilisation of valuation module showed an increasing trend during the period 2012-14.

The reasons analysed by audit for non-utilisation of valuation module are as below:

- The valuation module was not mandatory and was not made a part of the iSARITA registration module. It was kept as a separate module in iSARITA. The SRs therefore have the discretion to bypass the valuation module;
- The Annual Schedule of Rates (ASR) which was the backbone for the valuation module was not updated timely in the system. For instance ASR for the year 2015 was updated in the month of March 2015 instead of 1st January 2015.

Thus, the very purpose of valuation module was defeated.

In the exit conference, the IGR stated that the responsibility of uploading of ASR every year is assigned to NIC which is to be uploaded by 1st January every year. However, as the module required to be updated according to the altered/change guidelines of valuation, it took some time to release the updated module by NIC and therefore Department is now taking steps to make the guidelines available to NIC in advance to reduce the delay from January 2016.

3.4.2.6 Lack of awareness of SRs about capturing the negative list of properties

It was one of the objectives of the iSARITA to prevent the registration of the Public Utility lands and Government lands without the Government permission and transactions of properties prohibited by Income Tax Department, Enforcement Department and Courts. The facility was available in iSARITA for capturing the negative list of such properties.

We observed that SRs were unaware of the facility and were maintaining a separate manual register to record all such properties which were prohibited from registration. It rendered the system vulnerable to manual omission and error.

The IGR stated that the necessary training would be imparted to the staff.

3.4.2.7 Integration with data of land records

The National Land Record Modernisation Programme (NLRMP)⁹ provides for integration of data of Registration with the land records data. Accordingly, the SRs were required to forward online details to the concerned Revenue officer automatically on registration of any property. These details will include property details, registration number, date of registration and names of the parties which will be used by the revenue officer for mutation of the property.

We observed that NLRMP was launched in August 2008 and the Department identified Mulshi Taluka of Pune District for pilot project in 2011. As against the sanction of ₹ 7.13 crore, the Department spent ₹ five crore during the period 2010-15. The grants to the extent of ₹ 3.30 crore were utilised by the Department for procurement of storage devices and laptops under project iSARITA. The remaining amount was utilised for data entry for valuation details and Index-II. Thus, even after lapse of significant period, the very objective of integration could not be achieved.

In the exit conference, the IGR stated that 222 SR offices are linked with Land Record server. However, this linkage has not been activated as all Tahsil offices of land record have not gone online.

The fact remains that due to non linkage between the registration and land records department, the very objective of NLRMP to have an online mutation of property could not be achieved.

3.4.2.8 Details of delay condoned orders were not stored in the database

Registration Act, 1908 deals with condoning of the cases where the document is presented for registration after expiration of the time limit prescribed in the Registration Act by levying a fine prescribed in compendium of Registration Act 1908.

⁹ The Department of Land Resources in the Government of India is implementing the National Land Records Modernisation programme (NLRMP) involving survey/resurvey of land using modern technology, computerization of land records, digitization of maps, computerization of registration and mutation system and integration of all these into a seamless system with the ultimate goal of ushering in the system of conclusive title with title guarantee.

Analysis of database revealed that there were 3,090 cases in 170 SRs where the fine was levied for the delay in presentation of the documents. However, the condonation orders were not stored though there was a provision for the same in the application. This indicated that the system was prone to risk of registration of the documents without condonation orders from Joint District Registrar.

In the exit conference, IGR stated that the necessary controls would be built in the system.

3.4.3 Application Controls

The application controls consist of input, processing and output controls and help to ensure rule mapping, proper authorisation, completeness, accuracy and validity of transaction.

Input Controls

Input controls ensure that the data entered is complete and accurate. Weaknesses in the input controls noticed in audit are discussed below:

3.4.3.1 Missing details of the Stamp duty paid in database

Stamp duty is being paid using various modes *viz.*, e-challans, e-SBTR, Stamp papers of different denominations and through Franking. The application has provision to capture the total amount of stamp duty paid for registering a document and details of such payment in two separate tables. As such, the total stamp duty paid for registering the document stored should match with the details of transactions stored.

Analysis of the database revealed that the stamp duty details in respect of 19,960 documents involving ₹ 40.64 crore were not stored. In the selected SRs, it was observed that there were 1,125 documents involving ₹ 3.86 crore in which stamp duty details were missing. We further verified the details in respect of 118 out of 1,125 documents which confirmed the fact.

Thus, the application lacked necessary controls to ensure complete capture of data.

In the exit conference, the Secretary agreed to build necessary controls in the system.

3.4.3.2 Multiple entry of Stamp duty paid

Analysis of transaction data revealed that there were multiple entries of same transaction relating to stamp duty paid. We also observed that this transaction data is being used for generation of monthly statistics of stamp duty paid and the report was submitted by the SRs to JDR/DIG/IGR. This has resulted into reporting of inflated figures to the tune of ₹ 2.91 crore as shown in **Table 3.4.3.2.**

Table 3.4.3.2

(Amount in ₹)				
No. of multiple entries	Number of Sub Registrar offices	Actual Stamp duty	Stamp duty amount as per the table	Inflated amount shown in the table and in Monthly Statement
Double	158	2,66,17,430	5,32,34,860	2,66,17,430
Triple	11	11,77,130	35,31,390	23,54,260
Quadruple	1	3,500	14,000	10,500
Five Times	3	10,300	51,500	41,200
Six Times	3	19,000	1,14,000	95,000
Seven Times	1	100	700	600
Total		2,78,27,460	5,69,46,450	2,91,18,990

Similarly, the receipts given to the parties towards payment of stamp duty (Summary-1) were also generated using the above data. We analysed the actual receipts generated in 29 cases and confirmed the fact of generation of receipt with inflated amount.

In the exit conference, the Department stated that in initial version of iSARITA there was no provision to restrict duplicate entries, now the application has been updated.

The reply is not tenable because we observed that there are cases of multiple entries in data pertaining to year 2014 and 2015 also.

3.4.3.3 System accepts any range of stamp duty

To have reliable data entry, there must be a system of issue of alerts/warning by the application to the user at the time of input of exceptionally high values. We observed that the exceptionally high stamp duty paid amount stored in the database against a single document as shown in Table 3.4.3.3.

Table 3.4.3.3

Sr. No.	Name of SRs	No. of cases	Incorrect Amount (₹)	Correct Amount (₹)	Inflated figure (₹)
1	Joint S.R. Haveli 6	5	2900,50,42,783	8,91,800	2900,14,50,983
2	S.R. Ramtek	1	50,00,55,600	5,550	50,00,50,150
Total					2950,15,01,133

It was also observed that these figures were also used by the system to generate monthly stamp duty receipts. This has resulted into showing of inflated figure of revenue collection to the tune of ₹ 2,950.15 crore in only these two test checked SRs.

In the exit conference, the Secretary accepted the audit observation and agreed to carry out necessary updation in application.

3.4.3.4 Invalid PAN number

As per Section 285BA of Income tax Act, 1961, a statement of properties registered above ₹ five lakh is to be submitted to Income Tax Department by every SRO. The SRs were preparing and submitting this return based on the

information generated through iSARITA. In response to a return filed by Sub Registrar No. 3, Nagpur and Joint Sub Registrar, Kurla 1 for the year 2013-14, the Income Tax Department reported that the PAN number reported in 137¹⁰ cases pertaining to these two SRs were not found in their database (PAN master). We further observed that iSARITA database captured different PAN number for the same person. This indicated that the system had insufficient validation control.

In the exit conference, the IGR stated that the PAN data was not being made available to them by the Income Tax Department and necessary persuasion would be made in this connection with income tax department.

3.4.3.5 Lack of control to prevent entry of duplicate/incorrect/blank Government Reference Number

A unique Government Reference Number (GRN) is allotted by GRAS for any online payment of Stamp Duty or Registration Fee. The system should therefore have control to accept unique GRN only. Analysis of database revealed that there were 87 GRNs which were used as payment for multiple documents which ranged between 2 and 30 documents and the total documents involved were 238. We verified 14 GRNs out of 87 GRNs with the actual document and observed that this was due to data entry errors. We analysed the reasons for such erroneous GRNs getting stored in the database which are detailed below:

- There is no validation at the time of entry of GRN in the Public Data Entry module. The application allowed any alphanumeric figure irrespective of its length without verification/validation of the data from GRAS. Further, at the time of registration, the GRN was also not verified/validated by the concerned SRs. This resulted in capturing of incorrect GRN. Some of the dummy GRN numbers used and found in the database were shown in **Table 3.4.3.5 (A)**.

Table 3.4.3.5 (A)

Dummy GRN No.	No. of times used
MH0000000000000000E	18
MH0000000000000000M	30
MH00000000000201314E	4
MH00000000000201415E	2
MH9999999999999999X	4

- Though the field for capturing GRN is of 18 digit alphanumeric, it was observed that in 1,111 records the GRN was stored with incorrect GRN number as shown in **Table 3.4.3.5 (B)**.

¹⁰ SR 3 Nagpur – 26 cases, SR Kurla 1 – 111 cases

Table 3.4.3.5 (B)

Year	With 1 digit	2 digits	3 digits	4 digits	More than 4 digits but less than 18 digits	Total
2012	7	0	0	0	8	15
2013	661	20	0	116	294	1,091
2014	1	0	0	0	4	5
Total	669	20	0	116	306	1,111

This indicated that the necessary validation checks to prevent entry of duplicate/incorrect/blank records were not present in the system.

- We observed that there is no validation check by the Sub Registrar for the data entry done by the agency for registration of document. We observed in the following two cases that there was variation in the GRN number entered resulting in different amounts of stamp duty shown against these documents. The details of the same are shown in **Table 3.4.3.5 (C)**.

Table 3.4.3.5 (C)

Name of SR	Document number and Year	Actual GRN	GRN entered in the database	Actual Amount of stamp duty paid ₹	Amount of stamp duty as per database ₹
S.R., Thane-7	738 of 2014	MH001349284201314M	MH001355265201314S	3,500	1,68,000
S.R. Kalyan-5	2374 of 2014	MH000067284201415S	MH002037643201314S	2,41,120	2,51,620

- In the registration module, while making the data entry, the operation has the facility of selecting the GRN from pick-list. We observed that, the operator was picking up the GRN on the basis of amount from the pick-list. Thus, incorrect GRN was selected. This also led to use of GRN related to other documents. Analysis of the database revealed 40,571 records showing “already used GRN”.

In the exit conference, IGR stated that earlier, no such control was available in the application and now the controls have been built in the system. He further agreed to review the cases.

3.4.3.6 Misclassified Registration Fees

The Department levies “Document Handling Charges (DHC)” at the rate of ₹ 20 per page of the document registered in addition to the stamp duty and registration fees. The amount collected towards DHC was credited into PLA account and was utilized by the Department for iSARITA. The stamp duty and registration fees are credited into Government account. In the iSARITA, there is no provision for storing the DHC and registration fees separately. The DHC and registration fee recovered are stored in same table. In the table, if the

status of a prescribed field is 'True', then the amount refers to DHC otherwise (if 'False') refers to registration fees.

Analysis of the database revealed that in respect of 93,263 documents of 296 SRs involving registration fees of ₹ 49.24 crore was misclassified as DHC by marking the status as 'True'.

In the exit conference, the NIC representative stated that for storing of the registration fees in addition to 'receipt details' tables, separate table is provided in the database, which is used to record the registration fees.

It indicates that registration fees details are stored in more than one table and result into data redundancy. The Department may consider modifying the system design to ensure data consistency.

Processing Controls

Process controls inbuilt in the system must ensure that process was complete and accurate and processed data was updated in the relevant files. Data analysis revealed the following weaknesses:

3.4.3.7 Application failed to observe the workflow of registration process

The system which was designed to follow the five stamp process was found to be compromised. As discussed in para 3.4.2, registration process involves stages from Stamp1 to Stamp5 and for each stage the application puts time stamp. Audit observations on the analysis of database to determine the correct sequence of five stamp process revealed that:

- Application allowed registration of documents before presentation;
- Stamp2 process i.e. allotment of document number and payment receipt generation was done before the Stamp1 process i.e. before capturing the party details. Thus, there was a risk of placing of document in back date;
- The photographs and biometric thumb nail identification of witnesses were captured before the capturing the photographs and biometric thumb nail identification of parties. The time lag between these two processes was ranging between a minute to 27 days. Thus, the reliability of registered documents and reliability of database is defeated;
- The time recorded for Stamp5 process was found prior to Stamp3 process i.e. before the parties appeared for registration.

This led to failure of application to maintain the sequence of registration process.

In the exit conference, it was stated that this is due to un-synchronized application-servers which has been rectified now.

However, the fact remains that, the system failed to maintain the sequence of registration process in the database for 2015 even after rectification.

3.4.3.8 Registration of document bypassing biometric thumb verification of SRs

The application is designed in such a way that the logon is ensured/authenticated with the biometric thumb identification of the concerned SR. Similarly, each document registered is approved by the concerned SR by biometric thumb impression which is verified by the system. After verification is authenticated, the verification flag is changed to true or otherwise. Analysis of the database revealed that in 99,695 documents in the selected SRs the verification flag was found to be false. We observed that the application also provided for bypassing the biometric thumbnail impression of SR. Thus, the application was prone to risk of registering the documents without proper authority and defeated very purpose of having biometric and digital data.

In the exit conference, the Secretary agreed to take necessary steps to ensure mandatory compliance of biometric thumb verification.

3.4.3.9 Application failed to maintain reliable and complete data

Unless the document is kept pending or rejected, complete data of registered document should be captured as envisaged in the registration process relating to the documents registered. The application retained the flags for rejection of document and for pending of documents. The application generates Summary-1 and Summary-2 for every registered document. Summary-1 contains the details of SD and RF paid, Document handling charges with newly allotted document number. Summary-2 contains party's photographs and biometric thumb impressions, witnesses' photographs and thumb impressions.

Analysis of database revealed incomplete data and other deficiencies which are detailed below:

- i) In the selected SRs, the scanned images of 271 documents registered were missing in the database. This indicated that there is no procedure in place to ensure the completeness of the scan images.
- ii) The iSARITA application provides the facility for uploading of manual registration data afterwards in case online registration could not be done due to disruption of connectivity with the centralized server.

Analysis of database revealed that in 47,962 manually registered documents in 222 SRs, document handling charges amounting to ₹ 2.35 crore were recovered but the same were not accounted for in the database.

We confirmed the above facts in four SRs in respect of 827 manually registered documents in which an amount of ₹ 4.98 lakh, recovered as document handling charges, was not accounted for in the database. The details are as shown in **Table 3.4.3.9**.

Table 3.4.3.9

Sr. No.	Name of SRs	No. of manually registered documents	Amount (₹)
1	Joint S.R. Haveli 5	309	1,44,260
2	Joint S.R. Nagpur 3	86	40,200
3	Sub Registrar, Mauda	298	2,48,760
4	S.R. Bhudargad	134	64,300
Total		827	4,97,520

- iii) In respect of manual registration, the application has no facility to locally store the digital photo images and thumb impressions of the parties and witnesses and then upload it in the database. This led to incomplete data in respect of manually registered documents in the database and defeating very purpose of having biometric and digital data.
- iv) Similarly in respect of online registration, though the application provides for capturing the photo image and biometric thumb impression of the parties and witnesses concerned, the same were found missing in the database. This led to generation of Summary-1 and Summary-2 without photos and biometric thumb impression images. In the selected SRs, 5,578 cases were found with missing photo images and biometric thumb impressions in the database of which Summary-1 and Summary-2 of 71 cases were actually verified by audit and confirmed the facts. Further, it was observed that the reason for above omission was application interface allowing registration of document by bypassing the capturing of digital photographs and biometric thumb impression.
- v) As per power delegated under Section 68(2) of Indian Registration Act 1908, the JDR is empowered to make correction in the Index-2 of registered documents. We observed that the Index-2 of the documents in respect of which correction orders were issued by the JDR, Mumbai Suburban, Mumbai, were found to be unaltered. The concerned SRs stated that there were difficulties in the application to make alteration in the database. This has resulted into incorrect/incomplete data in the database.

In the exit conference, IGR stated that the scanned document may not have been uploaded due to disconnection between application and server.

As regards to un-accounted Document Handling charges in respect of manually registered document, the IGR stated the necessary modification would be done in the application.

As regards to non availability of photo-images and biometric thumb-impression in respect of manually registered documents it was stated that the Department would think on using local application in case of connectivity failure.

3.4.3.10 Refund of stamp duty module is partially used

Refund of stamp duty module is in partially operation due to some lacunas like order of refund is incorrectly generated. For example, in case of refund of payment made through e-SBTR, e-challan etc. there should be reduction of one *per cent* only. However, refund order generated with 10 *per cent* deduction.

On this being pointed out the JDR, Kolhapur stated that the module was not being used and also the staffs were not trained.

In the exit conference, IGR accepted that the module was not being used effectively by the concerned officers and necessary modification would be made in the module to generate correct reports.

3.4.4 Management of Third Party Services

3.4.4.1 Non-execution of service level agreement with NIC, Pune

The roll of System Administrator and Database Administrator is carried out by the NIC. The NIC is also providing the software support to the Department at the rate of ₹ 60 lakh per annum as the maintenance cost. We observed that no Service Level Agreement (SLA) was entered with the agency. The Department had paid ₹ 6.80 crore up to November 2014 towards development and maintenance of iSARITA. Absence of SLA resulted in the risk of accountability against the agency in the event of non-performance.

In the exit conference, the Department stated that the NIC being government organization and depending on other organization for providing services, they are reluctant to execute the SLA.

3.4.4.2 Non-submission of System Design documentation and lack of policy on ownership of source code

NIC Pune, has not submitted any System Design documentations showing module wise flow of data, table constraints and entity relationship to the Department. These documentations are required for further modification/development in the system.

Similarly, the Department did not have any policy for ownership of the source code. Even though different versions of SARITA to iSARITA were implemented by department, the source code of none of the applications was obtained from the concerned agencies.

In the exit conference, IGR stated that since the application is undergoing many changes for the enhancement of features, linkage with other software and new requirements, the updated SRS and SDD were not made available. However, the same would be obtained from the NIC.

3.4.4.3 Inadequate help desk management

The contract with the BOT agencies envisaged establishment of a State Call Centre and a District Control Centre (DCC) to monitor and assist the difficulties faced by field offices in the implementation of iSARITA. The DCC was required to be established at each JDR and would facilitate the data

accumulation, patch management, attending to the complaints and other related works. We observed that in two¹¹ out of six districts test-checked the help desk was not established while in other four¹² districts information was not made available to audit. Consequently, the issues raised by SRs remained unresolved. It was noticed that the SRs were carrying out manual correction in the system generated reports and the same were recorded by them in their minute books. However, as there were no proper instructions/procedures in place from the system administrator/help desk, the corrections so effected remained unchanged in the database resulting in inconsistencies in the data.

In the exit conference, IGR stated that these cases were due to error in operation or incorrect data entry. It was also stated that the Department would carry out a drive to resolve such issues.

3.4.5 Information System Security

An effective IT Security Policy is important for protection of the information, assets created and maintained by an organization.

3.4.5.1 The operator has un-authorized privileges to capture data in respect of other SRs

We observed (April 2015) that after logging the application (iSARITA) with biometric thumbnail authorization of the concerned SRs, the operator of the agency has access to all the privileges and thereby can logon to various modules of iSARITA in respect of other SRs also. In one of such instance we observed that in SR, Andheri-1 receipts (Numbers 440 to 444) were generated pertaining to SR, Andheri-5 due to above deficiency in the system. SR, Andheri-1, had made correction manually on such receipts and issued to parties concerned. Thus, there was weak logical security control which led to getting access to the functionalities of other SRs.

The SR, Andheri-1 stated that such cases were discussed with higher offices.

However, no corrective measures were taken by Department till date and the data in system remains un-altered.

In the exit conference, IGR stated that apart from MAC and IP address security, the data entry operator thumb verification login with office grouping would be introduced.

3.4.5.2 The system was susceptible to risk of data manipulations

In SR, Kurla-1, we observed that a document, registered as 'Affidavit' was changed to 'Leave and Licenses'. The name of the executing party was also modified, the stamp duty paid changed to ₹ 2,000 from ₹ 100 and the market value of the property was also changed to ₹ 2,25,000 from 'zero'. Similarly, in another document registered as 'Gift deed' was change to 'Leave and Licenses'. In this case also, the name of the executing parties and the stamp duty paid were altered. The photographs on original document and in the database in both the cases, however, were found to be the same.

¹¹ Kolhapur and Mumbai Suburban

¹² Latur, Nagpur City, Nagpur Gramin and Pune

The SR Kurla-1 confirmed that no such modifications were carried out by his office and also there was no request from the parties to make such modifications.

Thus, the system was susceptible to the risk of suspected backend changes with no audit trail to locate the event through security logs.

In the exit conference, the IGR stated that necessary enquiry from the SR and JDR would be done.

3.4.5.3 Use of live database to store test data

As per IT best practices, the test environment is always kept isolated from the live database. Further, the roles and responsibilities of developer and administrator of the database needs to be segregated.

However, we observed that NIC had created a user-id “NICtest” and storing the test data in live database. Further, every transaction in database requires to be identified by recording user-id with date time stamp. However, we noticed that no such control was available.

In the exit conference, it was stated that the NIC test user was created for testing the data in live environment, because sometimes it was difficult to simulate the live environment for testing purpose.

However, fact remains that, test data could not be segregated from the live data. Also there was risk of alteration of data in the backend database without audit trail.

3.4.5.4 No Annual Maintenance contract despite expiry of warranty period

Adequate controls must be in place to ensure continuous working of the information assets without disruption. We observed that the hardware installed for iSARITA was procured in the year 2011 with three years warranty. Though the warranty period has lapsed, the Department has not taken any efforts to appoint an agency for maintenance of hardware. Thus, the hardware were susceptible to the risk of damage thereby disruption in the working.

In the exit conference, the IGR stated that the circulars/guidelines had been issued to field offices in this connection. However, fact remains that the hardware were not covered under Annual Maintenance Contract.

3.4.6 Miscellaneous observations

3.4.6.1 Loss of 265 number of original Index-II Volumes

In order to have an effective e-search facility, the Department decided to capture the Index-II of the documents registered between 1988 to December 2000. Accordingly, IGR, Pune issued (December 2000) work order for data entry of Index-II of the documents Maharashtra Small Scale Industrial Development Corporation, Pune (MSSIDC) at a contract cost of ₹ 1.50 crore. The MSSIDC sublet the contract to three¹³ agencies for entering data of 33 districts without the knowledge of the Department. As per the terms and

¹³ M&B Industrial Services (16 Districts), Puna Computer Bureau (12 Districts), Chetan Enterprises (5 districts)

conditions of the contract the work was to be completed by MSSIDC, Pune within four months from the date of work order. However, the work remained incomplete as of November 2014. Besides, MSSIDC, Pune failed to return 265 Volumes of original Index-II registers which were stated by the MSSIDC to the IGR as untraceable. In spite of the failure of MSSIDC, the Department released the payment of ₹ 80.61 lakh.

We observed that, though there was condition in the contract for execution of the data entry work in the office of the JDR, the volumes of Index-II were allowed to be shifted outside the office premises which resulted in permanent loss of important documents. Department stated that as the volume of Index-II was very large it was not possible to provide Xerox copies of the document.

The reply is not acceptable, as the Department failed to monitor the safe custody and security of original documents.

In the exit conference, IGR stated that the FIR was lodged and enquiry was in progress. However, the facts remained that the computerized Index-II was yet to be re-built.

3.4.6.2 Application failed to track principal documents

As per Section 4(1) of MS Act, where in case of any development agreement, sale, mortgage or settlement, several instruments are employed to complete the transaction, the principal instrument only shall be chargeable with the duty prescribed in Schedule-I for conveyance, development agreement, mortgage or settlement and each of the other instruments shall be chargeable with a duty of one hundred instead of duty (if any) prescribed for it in that schedule.

The application has provision to capture the details of reference document number, year of registration and SR office where it was registered, at the time of registering subsequent document in continuation to the earlier document registered. However, iSARITA did not relate and verify the other details such as Seller, Purchaser and property details from the data captured. As the system did not have adequate validation controls, this led to capturing of incorrect reference document number thereby exposing the application to the risk of duty evasion.

In the exit conference, IGR agreed to review the cases.

3.4.7 Conclusion

Even after lapse of three years, the system has yet to achieve its intended objective. The MIS reports generated from the system were not complete. Defacement of e-receipt which is binding on the Department on providing the services to the payee was not done in many cases. In absence of error free Vendor Management System, activities of BOT agencies could not be monitored and quality of service could not be ensured. Due to weak logical security controls the system was vulnerable to the risk of data manipulation at the backend with no audit trail. Inadequate input and validation control had made data incomplete and inaccurate.

3.4.8 Recommendations

The Department may consider:

- Ensuring adequate logical access control so that the safety and security of data is not compromised;
- Creation of adequate audit trails to track the changes made in the data;
- Incorporating necessary controls and validation checks to ensure correctness and completeness of data;
- Analyse and review MIS reports to get better value and assurance from the functioning of the system.

3.5 Other audit observations

During scrutiny of records of the various registration offices, we noticed several cases of non-compliance of the provisions of the Bombay Stamp Act, 1958 and Government notifications and instructions and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on our test check of records. The Government/Department needs to improve internal control mechanisms so that such cases can be avoided, detected and corrected.

3.5.1 Irregular grant of exemption in stamp duty on forged Letter of Intent

Variations in LOI's details such as in name and signature, name of the unit, purpose of the business and font style of the address resulted in irregular concession of stamp duty of ₹ 24.26 lakh

Government of Maharashtra, in Revenue and Forests Department, vide its Notification (June 2007), remits 75 per cent of the Stamp Duty on the instrument of Conveyance, executed by the Information Technology unit or the Bio-tech Unit for starting a new unit in the Information Technological (IT) Park under the package scheme of Incentives, 2007. The Joint Director of Industries, Government of Maharashtra had issued two 'Letters of Intent' in favour of M/s Meena Khetan for setting up and IT Service-Micro Scale Unit at Village Mohili, L-ward, Mumbai.

Scrutiny of documents/instruments of Joint Sub-Registrar, Kurla revealed (January 2012) that exemption from payment of stamp duty of ₹ 24.26 lakh was allowed in favour of Meena Khetan on the sale of office premises bearing No. 502 and 602. The two LOIs annexed with the documents were found to have been issued in favour of Meena Khetan. We cross verified the two LOIs issued by the Jt. Director of Industries with those annexed with the documents. It was found that in the LOIs annexed with the documents the name was changed i.e. M/s Meena Khetan was changed to Meena Khetan. In addition to this there were also certain variations between the two set-up of letters, such as variation in signature, name of the unit, purpose of the business, and font style of the address, which indicates that the LOIs were forged. The Joint Sub-Registrar, Kurla had omitted to detect the mistake and allowed the concession. The Department may consider reviewing such cases in the interest of revenue.

After we pointed this out (January 2013), the Inspector General of Registration, Maharashtra State, Pune accepted the omission (September 2014) and ordered recovery of stamp duty of ₹ 24.26 lakh stating that the firm with bad intention to fraud the State by avoiding its legitimate stamp duty, has committed the fraud and directed the concerned authority to take up the matter to the Police. The Department has further identified (December 2014) five more similar cases and action to recover stamp duty of ₹ 92.63 lakh in all seven cases was initiated. Report on recovery is still awaited (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.2 Short levy of stamp duty due to undervaluation of property

Incorrect calculation of market value of property resulted in short levy of stamp duty of ₹ 3.73 crore in the following cases

As per the Section 2(na) of MS Act, “market value” in relation to any property which is the subject matter of an instrument means the price which such property would have fetched if sold in open market on the date of execution of such instrument or the consideration stated in the instrument, whichever is higher. True market value is determined by considering the rates prescribed in the ASR.

3.5.2.1 Scrutiny of documents/instruments in the Joint Sub Registrar, Haveli XVIII, Pune, revealed (March 2014) that a Deed of Conveyance was executed (September 2011) between the Owner and Purchaser for a consideration of ₹ 35 crore. The area of construction was 18,477.44 sqm (at village Vadgaon Sheri, Pune) situated between the ground floor and the ninth floor consisting of shops and offices along with the parking area. The Department worked out the market value of the property as ₹ 85 crore, the basis of which was not found on record and levied stamp duty of ₹ 4.50 crore. However, as per ASR, the market value of the property should have been ₹ 125.42 crore involving stamp duty of ₹ 6.27 crore. This has resulted in short levy of stamp duty of ₹ 1.77 crore.

After we pointed this out, the Joint Sub Registrar, Haveli-XVIII, Pune (March 2014) accepted the audit observation and stated that the action for recovery would be initiated. Report on recovery is still awaited (February 2016).

3.5.2.2 Scrutiny of documents/instruments in the Office of Sub Registrar-V, Thane (December 2013), revealed that a Conveyance Deed was executed on 30 April 2012 between the Owner and Purchaser for sale of property consisting of land admeasuring 24,482.68 sqm and buildings and structures standing thereon bearing Gat numbers – 16, 17 and 19 situated at *mouze* Chitalsar, Manpada Thane. The Department determined the market value of the land as ₹ 45.77 crore and levied stamp duty of ₹ 2.29 crore.

Recitals of the valuation document revealed that the Department erroneously considered the area of property 22,510 sqm as against 24,482.68 sqm for valuation omitting the area of 1,972.68 sqm. Further, Department has done valuation of land by giving bulk land benefit in terms of instruction 17 of ASR which was not admissible as structures were standing on the property. The correct market value of the property works out to ₹ 63.74 crore on which

stamp duty at ₹ 3.19 crore was leviable. Thus, there was a short levy of stamp duty of ₹ 89.85 lakh.

After we pointed this out, the Joint District Registrar-I, Thane (City) accepted (September 2015) the facts and initiated action for recovery. Report on recovery is still awaited (February 2016).

3.5.2.3 The IGR, Pune vide its circular in March 2011 (effective from 1st April 2011) adopted a uniform policy for determination of market value of bulk land. The market value was required to be calculated in accordance with the slabs mentioned in the circular.

Scrutiny of documents/instruments registered in the SR-IV, Thane, revealed (March 2013) that a Deed of Conveyances was executed (December 2011, April 2011) between 'Owners' and 'Purchasers'. The basis on which the Department determined the market value of the property and levied stamp duty was not found on record or made available to audit. However, we worked out the market value of the property in accordance with circular *ibid*, and found that there was short levy of stamp duty of ₹ 68.33 lakh as shown in **Table 3.5.2.3**.

Table 3.5.2.3

(₹ in lakh)						
Doc. No./Date of execution	Area of land (in sqm)	MV / Consideration determined by the Department	MV determined by the Audit as per the circular of IGR	SD levied	SD leviable @ 6%	Short levy of SD
9846 / 26.12.2011	21,650	332.06	1,312.79	19.93	78.77	58.84
7871 / 11.04.2011	9,051	186.00	279.43	11.16	16.77	5.61
3499 / 26.04.2011	6,800	151.50	216.40	9.10	12.98	3.88
Total				40.19	108.52	68.33

After we pointed this out (March 2013), the Joint District Registrar (JDR), Thane (City) (August 2013/October 2014) accepted the observation. Further progress of recovery has not been received (February 2016).

3.5.2.4 Scrutiny of documents/instruments in the Office of the Joint Sub Registrar, Borivali-VI, Mumbai, revealed (June 2010) that a Conveyance Deed was executed (February 2007) between the Owner and Purchaser for a sale of an area admeasuring 6,278.50 sqm with a constructed area of 3,725.70 sqm from Malad, Taluka Borivali in Greater Mumbai for a consideration of ₹ 4.60 crore. The Department had levied stamp duty of ₹ 23.15 lakh on the market value of ₹ 4.63 crore. The basis on which the Department determined the market value of the property and levied stamp duty was not found on record or made available to audit.

The correct market value of the property as per the existing records was ₹ 12.30¹⁴ crore involving stamp duty of ₹ 61.49 lakh. This resulted in short levy of stamp duty of ₹ 38.34 lakh.

After we pointed this out (June 2010), the Sub Registrar and Administrative Officer, Suburban District, Mumbai accepted (June 2014) the audit observation. A report on recovery is awaited (February 2016).

We reported the above cases to the Government in June 2015; their reply has not been received (February 2016).

3.5.3 Short levy of stamp duty due to non-consideration of revenue sharing aspect mentioned in the recitals of the document for valuation

Non-considering of revenue sharing between Owner and Purchaser for calculating the market value, resulted in short levy of stamp duty of ₹ 17.68 crore

As per provision contained in Article 5 (g-a) (i) of Maharashtra Stamp Act, if immovable property is given to a Developer or Builder for development, construction, sale or transfer then stamp duty is as leviable as per conveyance under Article 25 (b) under the said Act. Also, for the purpose of determining consideration that passed on by the developer to the owner, in the form of revenue share after selling of the constructed unit, then the rate of residential unit as per ready reckoner would be considered (i.e. unit rate).

Scrutiny of documents/instruments in the Offices of 13¹⁵ Sub Registrar between August 2013 and January 2015, revealed that in 31 cases the Development Agreements were executed between “Owners” and “Developers” for development of land. The Department levied stamp duty of ₹ 6.42 crore on market value/consideration of ₹ 138.67 crore in these 31 cases. Recitals of the documents revealed that the owner and developers had agreed to develop the properties on the basis of revenue sharing¹⁶. The revenue sharing between owner and the developers ranged between 20:80 and 55:45 *per cent*. Based on the revenue sharing, the market value in the form of consideration passed on by the developer to the owner worked out to ₹ 548.73 crore against ₹ 138.67 crore mentioned in the document. This resulted in undervaluation of ₹ 410.06 crore involving stamp duty of ₹ 24.10 crore and short levy of stamp duty of ₹ 17.68 crore.

After we pointed this out (August 2013 to January 2015), the Department accepted the audit observations in 13 cases involving revenue of ₹ 8.26 crore.

¹⁴ Total plot area : 6,278.50 sqm, Construction area : 3,725.70 sqm (Temple : 58.71 sqm, Shop : 88 sqm, Residential flat : 3,578.99 sqm), Open space : 2,552.80 sqm (6,278.50 - 3,725.70)

A) Market value of constructed area of the property : Total = ₹ 7,80,22,957/-

B) Market value of open area of the property = ₹ 4,49,51,816/-

Total Market Value of the property = ₹ 12,29,74,773/- i.e. ₹ 12,29,75,000/- (A+B)

¹⁵ 1) SR-V, Aurangabad, 2) SR-XI, Haveli, Pune, 3) SR-IX, Haveli, Pune, 4) SR-XV, Haveli, Pune, 5) SR-XIII, Haveli, Pune, 6) SR-XII, Haveli, Pune, 7) SR-II, Haveli, Pune, 8) SR-IV, Haveli, Pune, 9) SR-IV, Nashik, 10) SR Palghar, Thane, 11) SR-II, Nanded, 12) SR Bhiwandi-I, Thane, 13) SR-I, Pandharpur.

¹⁶ revenue realized from selling of constructed units in open market.

Replies in the remaining 18¹⁷ cases and reports on recovery in accepted cases have not been received (February 2016) from the department.

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.4 Short levy of stamp duty due to inadmissible concession granted in valuation of properties

Irregular concession of 30 per cent in stamp duty due to incorrect valuation of property resulted in short levy of stamp duty of ₹ 2.96 crore

As per instruction 18 of ASR, 30 per cent concession in rates prescribed in ASR for zones pertaining to main road (as per the sanctioned layout) is admissible to those properties which are situated beyond 50 meters from the main road of that zone.

Cross verification of the survey maps obtained from Town Planning Department with the property description mentioned in the documents executed in the Office of the Joint Sub Registrar-VII, Thane at Bhayander, revealed that in 25 cases though the property were located within 50 meters from main road the executants claimed and were allowed benefit of 30 per cent concession of the ASR value during 2011-2012. The correct market value of the properties worked out to ₹ 175.99 crore against ₹ 123.81 crore mentioned in the documents. This resulted in undervaluation of properties by ₹ 52.18 crore involving stamp duty of ₹ 2.96 crore.

After we pointed this out (April 2013), Collector of Stamps, Thane (City) in 24 cases, accepted the observation (June 2014) and ordered Joint Sub Registrar-VII, Thane to recover the deficit stamp duty. Reply in the remaining one case has not received and report on recovery is awaited (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.5 Short levy of stamp duty due to misclassification of document

Levying stamp duty at the concessional rate of one per cent due to misclassification of document resulted in short levy of stamp duty of ₹ 1.55 crore

As per Article 25 of Schedule-I of Maharashtra Stamp Act, stamp duty at the rate of five per cent is leviable on the conveyance deeds while stamp duty on development agreements is levied at the rate of one per cent upto 4 June 2008 under Article 5 (g-a) of the Act.

¹⁷ Cases in which replies from Department are awaited.

Name of SR	No. of cases	Name of SR	No. of cases
SR-V, Aurangabad	02	SR, Haveli XII, Pune	03
SR, Haveli IV, Pune	01	SR, Haveli XIII, Pune	01
SR, Haveli IX, Pune	07	SR, Haveli XV, Pune	03
SR, Haveli XI, Pune	01	Total cases	18

During scrutiny of documents/instruments in the Office of the Joint Sub Registrar, Panvel-II, Raigarh (September 2011), we noticed that a 'Deed of Confirmation' (DoC) was executed (November 2009) between the Developer and the Owner for confirmation of Development Agreement executed (May 2008) of plot admeasuring 6,80,000 sqm situated at Village Adivali and Kirnavali, Tahsil Panvel, District Raigad for a consideration of ₹ 18 crore. Collector of Stamps, Alibag determined the market value of the property at ₹ 38.84 crore on which stamp duty at the rate of one *per cent* ₹ 38.84 lakh under Article 5 (g-a) of MS Act was recovered (October 2009).

The recital of the agreement revealed that the purchaser was given the absolute right of the property, the owner had renounced (right, interest and title) and had received ₹ 18.00 crore as consideration money of the property. Thus, document was required to be treated as 'Conveyance Deed' and not as a 'Development Agreement'. Misclassification of the document resulted in short levy of stamp duty of ₹ 1.55 crore.

After we pointed this out (September 2011) the Department accepted the observation (February 2014) and an encumbrance of ₹ 1.55 crore was recorded (February 2014) on the 7/12¹⁸ extract as revenue recovery certificate. Report on recovery is awaited (August 2015) and IGR has taken up the matter under Section 53A and order thereof is still awaited (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.6 Short levy of stamp duty due to non-application of instruction contained in ASR issued by IGR, Pune

Incorrect consideration of market value and mistake in working out the area occupied by tenant resulted in short levy of stamp duty of ₹ 62.18 lakh

As per instruction No. 1 contained in the Annual Statement of Rates (ASR) in case of tenant occupied old building at the time of redevelopment of the property the valuation should be done in accordance with the formula viz. $(XY - Z)^{19} \times (\text{Land rate as per ASR}) + (112 \times B^{20})$.

Scrutiny of documents/instruments in the Office of Joint Sub Registrar (City)-I (SR), Mumbai (November 2007) revealed that a Deed of Assignment was executed between Owner and Purchaser for joint development of a land admeasuring 19,542.565 sqm of Byculla Division of Mumbai for a consideration amount of ₹ 12.00 crore. The instrument was adjudicated (September 2006) by Collector of Stamps (CoS), Mumbai and market value was worked to ₹ 12.20 crore involving stamp duty of ₹ 61.02 lakh. We noticed mistakes in working out the areas occupied by the tenant. The areas occupied by the tenant were 8,527.90 sqm against which 22,475.50 sqm were deducted. Accordingly the market value of property worked out to ₹ 24.64 crore

¹⁸ 7/12 are two forms, prescribed by Revenue Department for classification of land, name of holder, area and purpose of use of land. (i.e. agriculture, non-agriculture)

¹⁹ X = Total area of property, Y = Permitted Floor Space Index, Z = Area occupied by tenants

²⁰ B = Total monthly rent receivable from tenant.

involving stamp duty of ₹ 1.23 crore. The omission resulted in short levy of stamp duty of ₹ 62.18 lakh.

After we pointed this out (November 2007), the IGR accepted (December 2013) the objection and passed an order under Section 53A of MS Act for recovery of short levy of stamp duty of ₹ 71.57 lakh by revising the calculation. A report on recovery is awaited (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.7 Short levy of stamp duty due to non-application of instruction contained in ASR

Incorrect deduction of cost of construction area and allowing 20 per cent concession to the tenant while calculating market value resulted in short levy of stamp duty of ₹ 47.36 lakh

During the scrutiny of documents/instruments in the Office of the Joint Sub Registrar III, Mumbai City, it was noticed (December 2013) that Joint Venture Agreement deed executed (December 2012) between 'Existing Vendors' and 'Incoming Vendors' for joint development of land admeasuring 3,241.66 sqm along with tenanted cessed²¹ buildings situated at Lower Parel Division of Mumbai for a consideration of ₹ four crore. The document was adjudicated (December 2012) by Collector of Stamps, Mumbai City and stamp duty of ₹ 62.93 lakh levied on market value worked out at ₹ 12.59 crore. The Department had erroneously deducted the cost of construction of area to be provided to tenant from the calculation of market value and also given 20 per cent concession for providing temporary arrangement for tenants. The correct market value in accordance with instruction no. 1 of ASR 2012 worked out to ₹ 22.06 crore as against ₹ 12.59 crore worked out by department. The stamp duty of ₹ 1.10 crore was leviable on ₹ 22.06 crore. Thus, there was a short levy of stamp duty of ₹ 47.36 lakh.

After we pointed this out (December 2013 and January 2015), the IGR, Pune stated that the document has been taken up for revision under Section 53A of MS Act (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

²¹ Mumbai Building Repairs and Reconstruction Board formed under MHADA Act 1976 surveys the old buildings of Mumbai Island city and levies a cess for repairs and reconstruction of the building as per its category based on its age, such properties are called cessed buildings.

3.5.8 Short levy of stamp duty due to incorrect application of exemption

Incorrect consideration of area as slum resulted in short levy stamp duty of ₹ 31.61 lakh

As per Article-25(b)(i) of Schedule-I of Maharashtra Stamp Act, stamp duty at the rate of five *per cent* is leviable. Government of Maharashtra vide notification dated 19 December 1997 reduced the stamp duty to ₹ 100, chargeable under Article 25 in the schedule appended to the Maharashtra Stamp Act (MS Act), on the instruments executed for the purpose of rehabilitation of slum dwellers as per the Slum Rehabilitation Scheme under the Maharashtra Slum Areas (Improvement, Clearance and Redevelopment) Act, 1971 in respect of properties situated within the city of Mumbai District and Mumbai Suburban District.

Scrutiny of documents/instruments in Joint Sub Registrar, Andheri-3 revealed (November 2009), that a Conveyance Deed was executed on 21 March 2007 for sale of a land admeasuring 2,921.20 sqm bearing CST No. 252 and 252/1 to 29 situated in village Gundewali, Andheri which was declared as slum area. The Department considering the slum area, levied stamp duty of ₹ 100 on consideration of ₹ 25 lakh. Recital of the instrument did not indicate that either any transfer took place in pursuance of Slum Rehabilitation Scheme or was there any mention of rehabilitation of slum dwellers. As such the instrument did not fall under the notification of December 1997, *ibid* and stamp duty at the rate five *per cent* is leviable. This has resulted in short levy of stamp duty of ₹ 31.61 lakh on the market value of ₹ 6.32²² crore of the property.

After we pointed this out (November 2009), the Sub Registrar and Administrative Officer, Mumbai Suburban District, accepted (December 2013) the observation. Report on recovery is awaited (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

3.5.9 Short levy of stamp duty due to non-considering the unearned income amount in consideration

Non-consideration of unearned income amount in consideration resulted in short levy of Stamp Duty

As per Government Resolution (GR) of 9th July, 2002 issued by Revenue and Forest Department, on granting permission to sell government land, the occupant of land shall pay unearned income at 50 *per cent* of market value of

²² Total area of land = 2,921.2 sqm, Rate of land = 16,000/-

i) $2,000 \times ₹ 16,000 = ₹ 3,20,00,000/-$. $921.2 \times ₹ 16,000 \times 0.85 = ₹ 1,25,28,320/-$ Total = ₹ 4,45,28,320...(A)

ii) 40% TDR valuation (As per instruction no. 3 of ASR 2007) $2,921.2 \times ₹ 16,000 \times 40\% = ₹ 1,86,95,680...$ (B)

Total Market Value = ₹ 6,32,24,000/- (4,45,28,320 + 1,86,95,680)

land as on date of order granting such permission or price realized by way of sale whichever is higher.

During scrutiny of documents/instruments in Joint Sub Registrar (SR), Nashik (August 2013), we noticed that an Agreement to Sale of land admeasuring 14,800 sqm situated at village Vihitgaon, Taluka & District Nashik bearing survey no. 4/2, 5/4 & 5/23 was executed (December 2011) between Owner and Purchaser. The SR levied stamp duty of ₹ 26.70 lakh on market value of ₹ 5.34 crore. The recital of a document executed in December 2011 indicated that Purchaser has agreed to pay the unearned income amount of ₹ 2.87 crore due to be paid to the Government in addition to the market value of the property involving stamp duty of ₹ 36.27 lakh. However, Joint Sub Registrar has not considered the unearned income amount as consideration and levied stamp duty of ₹ 26.70 lakh instead of ₹ 36.27 lakh which has resulted into short levy of stamp duty of ₹ 9.57 lakh.

After we pointed this out (August 2013 and May 2015), the Joint District Registrar, Class-I and Collector of Stamps, Nashik accepted the observation (December 2013) and instructed Sub Registrar, Nashik-1 to recover the deficit stamp duty. Report on recovery has not been received (February 2016).

We reported the matter to the Government in June 2015; their reply has not been received (February 2016).

CHAPTER IV

LAND REVENUE

4.1 Tax administration

The administration of Land Revenue Department vests with the Principal Secretary, Revenue Department. For the purpose of administration, the State has been divided into six divisions and each division is headed by the Divisional Commissioner who is assisted by District Collectors. There are 36 District Collectors, 114 revenue sub divisions, 370 Talukas headed by the Tahsildar. The Revenue Inspector and Village Officers (Talathi) are responsible at the grass root level for collecting the land revenue and dues recoverable as arrears of land revenue.

4.2 Results of audit

In 2014-15, test check of the records of 91 units of the Land Revenue, showed non-levy/short levy of Occupancy Price, Lease Rent, Unearned Income, non-levy of non-Agriculture Assessment etc. and other irregularities amounting to ₹ 176.10 crore in 184 observations, which fall under the categories as given in **Table 4.2**.

Table 4.2

(₹ in crore)			
Sr. No.	Category	No. of observations	Amount
1	Non-levy/short levy of measurement fees, sanad fees, license fees etc.	6	1.25
2	Non-levy/short levy of fine, non-auction/short recovery of surface rent on account of sand ghats, royalty etc.	32	8.56
3	Non-levy/short levy/incorrect levy of Non-Agriculture Assessment (NAA), ZP/VP cess and conversion tax.	84	4.50
4	Non-levy/short levy of occupancy price, lease rent, unearned income etc.	46	30.90
5	Others	16	130.89
Total		184	176.10

In response to our observations made in the local audit reports during the year 2014-15 as well as during earlier years, the Department accepted and recovered under assessments/other deficiencies involving ₹ 9.91 crore in 132 observations, out of which four observations involving ₹ 5.31 lakh were pointed out during 2014-15 and the rest during earlier years.

- Short recovery of unearned income of ₹ 2.68 crore due to incorrect calculation of market value of land for the purpose of levy was noticed

(June 2013) in the office of Tahsildar, Maval. After we pointed this out, the Department recovered the entire amount (October 2015).

- Non-inclusion of occupancy price in market value estimated by Collector, Akola, resulted in undervaluation and consequently short levy of occupancy price of ₹ 11.57 crore. After we pointed this out (February 2012), the Department recovered (March and May 2015) the entire amount.
- In one case in district Raigad entire amount of interest of ₹ 6.35 crore leviable on delayed payment of land revenue of ₹ 6.35 crore was recovered after being pointed out by Audit in May 2013.

A few illustrative observations involving ₹ 1.33 crore are discussed in the succeeding paragraphs.

4.3 Audit observations

During scrutiny of records of the various land records and land revenue offices, we noticed several cases of non-compliance of the provisions of the Maharashtra Land Revenue Code, 1966 (MLR code), Government notifications/instructions as mentioned in the succeeding paragraphs of this chapter. These are illustrative cases and are based on the test check carried out by us. As such cases are pointed out by us repeatedly, there is need on the part of the Government to improve the internal control system so that recurrence of such cases can be avoided.

4.3.1 Incorrect determination of market value due to arithmetical mistakes

Arithmetical mistake and consideration of incorrect area of land by the Department resulted in short recovery of unearned income of ₹ 89.19 lakh

As per circular issued by Government in March 2000, for converting the tenure of *watan* lands, *nazarana*/unearned income equal to 50 per cent of the market value of the land is to be recovered, if the land is or is intended to be used for purpose other than agriculture. Further, as per Government Resolution issued in May 2006 and April 2008, the *nazarana*/Unearned Income amount is to be calculated as per the rate of land prescribed in ready reckoner¹ on the date of issue of such order for conversion of land for other than agriculture use.

Scrutiny of cases of granting permission for change in use of Government land in Collector, Pune, revealed (March 2014) that the permission was granted by Collector, Pune (January 2012) to the occupants to convert the *Mahar Watan* land for residential purpose. The Department calculated the market value of land admeasuring 7,028 sqm situated at *mouze* Kharadi (Pune) at ₹ 2.36 crore and unearned income of ₹ 1.18 crore at the rate of 50 per cent of market value

¹ Ready reckoner is issued by the IGR, (MS) Pune every year for determination of market value of the property.

was recovered (December 2012). Our scrutiny revealed that the Department had made arithmetical mistakes while working out the unearned income. The market value of the property was reduced twice by 50 *per cent* instead of at one time. Besides the area of under conversion was also taken wrongly as 7,028 sqm instead of 6,863.85 sqm. The correct market value of land was worked out to ₹ 4.14 crore in terms of GR quoted above and unearned income @ 50 *per cent* of ₹ 2.07 crore on it was recoverable. Thus, arithmetical mistake and consideration of incorrect area of land resulted in short recovery of unearned income of ₹ 89.19 lakh.

After we pointed this out (March 2014), the Collector, Pune accepted (September 2014) the observation and issued the order for short recovery. Report on recovery is still awaited (December 2015).

We reported the matter to the Government in May 2015; their reply has not been received (February 2016).

4.3.2 Short levy of *nazarana* due to undervaluation of property

Non-following the instructions mentioned in Government Resolution by the Tahsildar, resulted in short recovery of *nazarana* amount of ₹ 26.18 lakh

As per Government of Maharashtra, Revenue and Forest Department (July 2002) if the Class-II land is converted into Class-I land for non-agricultural purpose, then the *nazarana* amount equivalent to 50 *per cent* of market value of the land should be recovered from the applicant. Further as per Government Resolution (GR) Government of Maharashtra, Revenue and Forest Department (April 2008) true market value of land was required to be calculated in accordance with the slabs mentioned therein.

Scrutiny of documents/instruments revealed (December 2012) that Tahsildar, Sinnar passed an order (October 2010) to grant permission for conversion of class-II land to class-I land of 36,200 sqm of *mouze* and Taluka Sinnar on which *nazarana* amount of ₹ 59.70 lakh, equivalent to 50 *per cent* of market value of ₹ 1.19 crore was levied and recovered (December 2010). The market value as per GR *ibid* was worked out to ₹ 1.78 crore on which *nazarana* amount of ₹ 85.88 lakh was recoverable as shown in **Table 4.3.2**.

Table 4.3.2

(Amount in ₹)					
Gat No.	Area (sqm)	Calculation by Department		Calculation as per GR	
		Market Value	Total MV	Market Value	Total MV
1237/3	2,600	2,000 X 680 X 100% = 13,60,000 600 X 680 X 80% = 3,26,400	16,86,400	2,000 X 680 X 100% = 13,60,000 600 X 680 X 90% = 3,67,200	17,27,200
1237/4	12,000	2,000 X 680 X 60% = 8,16,000 10,000 X 680 X 40% = 27,20,000	35,36,000	10,000 X 680 X 70% = 47,60,000 2,000 X 680 X 60% = 8,16,000	55,76,000
1237/13	1,400	1,400 X 680 X 100% = 9,52,000	9,52,000	1,400 X 680 X 100% = 9,52,000	9,52,000
1237/14	20,200	2,000 X 680 X 60% = 8,16,000 18,200 X 680 X 40% = 49,50,400	57,66,400	10,000 X 680 X 70% = 47,60,000 10,200 X 680 X 60% = 41,61,000	89,21,600
		Market Value	1,19,40,800		1,71,76,800
		<i>Nazarana</i> (50% of MV)	59,70,400		85,88,400

Thus, this has resulted in short recovery of *nazarana* amount of ₹ 26.18 lakh.

After we this pointed out (December 2012), Tahsildar Sinnar referred the matter to Sub-Registrar, Sinnar for determination the correct market value (December 2012).

We reported the matter to the Government in May 2015; their reply has not been received (February 2016).

4.3.3 Non-recovery of VAT on auction amount from bidders of sand auction

Award of right for excavation of sand, without collecting VAT at source by Collector, Satara resulted in non-recovery of VAT of ₹ 17.79 lakh

Government of Maharashtra in Finance Department notified (February 2013) that the District Collector having jurisdiction over the area, for the purpose of Section 31(A)(1)(a) of the Maharashtra Value Added Tax 2002 (MVAT), shall collect with effect from 15 February 2013, from the successful bidders in addition to the amount fixed for the auction of sand, an amount at the rate of 10 *per cent* of the auction amount from the person or dealer who has been awarded the right for excavation of sand.

Scrutiny of documents/instruments (June 2014) related to auctioning of sand ghats in Collector, Satara, revealed that e-auctioning of sand ghats were carried out between February 2013 and April 2013. Five successful bidders were awarded the right for excavation of sand from designated area. During auction, total auction amount collected from five bidders was ₹ 1.78 crore. Accordingly an amount of ₹ 17.79 lakh towards VAT at source was required to be recovered by the District Collector, Satara from the aforesaid bidders in terms of said notification *ibid*. However, Collector, Satara, awarded the right for excavation of sand, without collecting VAT at source which resulted in non-recovery of VAT amounting to ₹ 17.79 lakh.

After we pointed this out (June 2014), the District Mining Officer at Collector Office, Satara stated (June 2014) that recovery will be made under intimation to audit and Additional Collector, Satara stated (September 2015) that recovery of ₹ 13.38 lakh has been made. Report on balance recovery is still awaited.

We reported the matter to the Government in May 2015; their reply has not been received (February 2016).

CHAPTER V

TAXES ON VEHICLES

5.1 Tax administration

Levy and collection of taxes and other receipts under the Motor Vehicles sector are regulated by the Central Motor Vehicles Act, 1988, the Maharashtra Motor Vehicle Tax Act, 1958, the Maharashtra Motor Vehicles Transportation of Passengers Act, 1958, and the Rules made there under. These Acts and Rules are implemented by the Transport Commissioner under the overall control of the Principal Secretary (Transport) to the Government in Home Department, assisted by an Additional Commissioner, a Joint Commissioner, Deputy Commissioners and Regional and Deputy Transport Officers. The motor vehicles receipts mainly comprise of taxes on motor vehicles and taxes on goods and passengers.

5.2 Internal Audit

Each Regional Transport Office is having an internal audit wing headed by an Accounts Officer. The criteria for taking up audit has been laid down in order dated 1 September 1971, which prescribes checking of assessment of tax in case of newly registered vehicles, checking of cash book, dead stock etc.

Information regarding position of units planned to be taken up for audit and actually audited is given in **Table 5.2**.

Table 5.2

Year	No. of units planned	No. of units audited	Audit observations raised	Audit observations settled till 31.03.2015	Pending observations as on 31.03.2015
2010-11	19	19	454	362	92
2011-12	18	18	332	258	74
2012-13	29	29	1,171	806	365
2013-14	32	32	693	193	500
2014-15	2	2	35	0	35

Source: Information furnished by the Department

It can be seen from the above table that the number of units planned and audited was reduced from 32 in 2013-14 to two in 2014-15. The reasons for the same, though called for, have not been received.

5.3 Results of audit

In 2014-15, test check of the records of 48 units relating to Maharashtra Motor Vehicles Tax Act, etc. showed under assessment of tax and other irregularities involving ₹ 75.31 crore in 299 observations, which fall under the following categories shown in **Table 5.3**.

Table 5.3

(₹ in crore)			
Sr. No.	Category	Number of observations	Amount
1	Non/short levy of tax due to application of incorrect rates	183	74.95
2	Short levy of tax due to incorrect exemption/classification	3	0.02
3	Excess refund and miscellaneous	113	0.34
Total		299	75.31

During the year 2014-15, the concerned Department accepted underassessment, short levy of motor vehicle tax of ₹ 35.72 crore in 166 observations and recovered the entire amount, of these, 20 observations involving ₹ 15.28 lakh related to 2014-15 and the rest to earlier years.

Audit observations involving ₹ 8.85 crore are discussed in the following paragraph.

5.4 Audit observations

Scrutiny of the records of Regional Transport Offices (RTOs)/Dy. Regional Transport Offices (Dy. RTOs) revealed several cases of non-observance of provisions of the Maharashtra Motor Vehicles Tax Act, 1958 (MMVT Act) and other allied Acts, as mentioned in the succeeding paragraphs of this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit every year, but not only the irregularities do persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such instances can be avoided.

5.4.1 Non-recovery of passenger tax

Non-payment of Passenger Tax from the tax collected by the agency resulted in short recovery of Passenger Tax of ₹ 7.86 crore

In exercise of powers conferred by Section 21 read with Rule 3-A of the Bombay Motor Vehicles (Taxation of Passengers) Act, 1958 (Bom. LXVII of 1958) as amended from time to time, the Government of Maharashtra exempts the passengers carried by stage carriages from payment of only so much of the tax as is in excess of 3.5 per cent of the inclusive amount of fares payable to the operators of stage carriage plying exclusively within the municipal areas in any part of the State of Maharashtra and on the routes serving municipal and adjacent rural areas.

During scrutiny of documents / instruments of Regional Transport Officer (Urban), Nagpur (RTO) it was noticed (March 2013) that Nagpur Municipal Corporation (NMC), who has taken over the City Bus Transport System in Nagpur city from Maharashtra State Road Transport Corporation in February 2007, has entered into an agreement and supplementary agreement with an agency (February 2007 and March 2010 respectively) for providing bus transport services on Build, Operate and Own (BOO) basis in the Nagpur city. As per clause 4.1 of the said agreement, the agency was liable to pay all taxes to Government. Accordingly, the agency had provided city bus service on

behalf of NMC. However, the details of amount collected by way of sale of tickets was neither available with RTO nor with NMC. Scrutiny of audited accounts of the agency revealed that the agency had collected aggregate amount of ₹ 234.45 crore from sale of tickets during 2006-07 to 2013-14 which includes passenger tax of ₹ 7.93 crore due to the Government but had paid only ₹ seven lakh into Government account till date. Thus, there was non-payment of passenger tax of ₹ 7.86 crore by NMC/agency.

After this being pointed out by audit (March 2013), the RTO stated that NMC did not furnish the returns in terms of Bombay Motor Vehicle (Taxation of Passengers) Act, 1958 and has accepted (April 2015) the fact about short recovery of ₹ 7.86 crore on account of passenger tax. Further progress in the matter has not been received.

We reported the matter to the Government in May 2015; their reply has not been received (February 2016).

5.4.2 Non-recovery of Motor Vehicle Tax

RTO- Aurangabad, Dhule, Nashik, Pune and Tardeo ; Dy. RTO – Akluj, Ambejogai, Hingoli, Jalna, Kalyan, Parbhani, Pen, Shrirampur and Vashi

Motor Vehicle Tax amounting to ₹ 99.31 lakh on various types of vehicles was not recovered in 330 cases

Under section 4 of the MMVT Act and the rules made thereunder, tax at prescribed rate is payable on all vehicles kept for use in the State, as per the registered laden weight or seating capacity. In case of equipment fitted vehicles kept for use in the State, tax at prescribed rates is payable on the basis of their unladen weight. The details of recoveries made from the vehicle owners, issue of demand notices etc. is maintained in the cash balance review register (CBRR).

During test check of 14 offices between January 2013 and March 2014, we noticed from the CBRR that tax amounting to ₹ 99.31 lakh in respect of transport series vehicles (Buses)/ transport series vehicles (Goods)/ equipment fitted vehicles was not recovered in respect of 330 vehicles for periods ranging from 1 month to 47 months between July 2009 and March 2014 as shown in **Table 5.4.2.**

Table 5.4.2

Types of Vehicles	No of cases	(₹ in lakh)
		Amount
Transport series vehicles (Buses)	84	59.15
Transport series vehicles (Goods)	209	31.58
Equipment fitted vehicles	37	8.58
Total	330	99.31

After this being pointed out between January 2011 and March 2014, the Department accepted the observation and communicated recovery of ₹ 24.22 lakh in 119 cases between May 2013 and December 2015. A report on the balance recovery has not been received.

We reported the matter to the Government in May and June 2015; their reply has not been received (February 2016).

CHAPTER VI

OTHER TAX RECEIPTS

6.1 Tax administration

This chapter consists of receipts from State Excise, Entertainments Duty, State Education Cess (EC), Employment Guarantee Cess (EGC), etc.. The administration is governed by Acts and Rules framed separately for each Department.

6.2 Results of audit

In 2014-15, test check of the records of 242 units relating to the Entertainments Duty, Taxes and Duties on Electricity, Education Cess/Employment Guarantee Cess, Profession Tax, Repair Cess etc. showed non/short credit of lapsed deposits into Government revenue account and other irregularities amounting to ₹ 143.16 crore in 642 observations, which fall under the following categories as indicated in **Table 6.2**.

Table 6.2

(₹ in crore)			
Sr. No.	Category	No. of observations	Amount
1	Performance Audit on “Levy and collection of Entertainments Duty”	1	35.54
2	State Excise	151	3.83
3	Entertainments Duty	318	46.27
4	Taxes and Duties on Electricity	46	1.10
5	Repair Cess	19	8.44
6	Education Cess and Employment Guarantee Cess	49	46.98
7	Maharashtra Tax on Buildings (with Larger Residential Premises)	17	0.19
8	Profession Tax	41	0.81
Total		642	143.16

In response to our audit observations pointed out during the year 2014-15 as well as earlier years, the concerned Department accepted underassessment, short levy, etc. and recovered ₹ 20.39 crore in 211 observations of which 25 observations involving ₹ 51.90 lakh related to 2014-15 and the rest to earlier years.

The department had recovered entire amount ₹ 10.63 lakh on account of additional fee from two 3 star hotels in Pune after it was pointed out by audit.

A Performance Audit on “**Levy and collection of Entertainments Duty**” with total financial effect of ₹ 35.54 crore and few audit observations involving ₹ 5.24 crore are included in the succeeding paragraphs.

6.3 Performance Audit on “Levy and collection of Entertainments Duty”

Highlights

There was lack of co-ordination between the Home Department, which issued licences through Commissioner of Police, Mumbai and the Revenue and Forests Department that collected Entertainments Duty (ED) for ascertaining the number of licences issued. In 211 entertainment centers, where licenses were issued by Commissioner of Police, Mumbai, ED was not being recovered by concerned Collectors.

(Paragraph 6.3.2.1)

The organizers of two events breached the conditions of exemption, prescribed in the GRs. They were liable to pay ED of ₹ 34 lakh, which was not collected by the Department.

(Paragraph 6.3.2.2)

There was short recovery of ED and surcharge amounting to ₹ 12.81 crore in case of amusement parks/water rides, which included an amount ₹ 11.35 crore from a single amusement park.

(Paragraph 6.3.2.3(b))

Non-recovery of ED amounting to ₹ 9.67 crore was noticed from 1,201 cases of cable operators and permit rooms/beer bars with live orchestra.

(Paragraph 6.3.2.3(c) and (d))

The Advisory Committee for grant of exemption of ED to cinemas was not formed despite a lapse of 12 years from the date of issue of GR.

(Paragraph 6.3.2.5)

There were shortfalls in inspections of entertainment centres and ED offices at district and taluka level by the Divisional flying squads as well as Divisional Dy. Commissioners.

(Paragraph 6.3.2.6)

The Department was not monitoring the compliance of conditions mentioned in the GR by the DTH service providers, like filing of CA approved returns, checking correctness of DTH connections and conducting surveys.

(Paragraph 6.3.2.7)

It was noticed that one hundred and fifty one cheques for payment of ED amounting to ₹ 65.48 lakh were dishonoured by the issuing banks, however, no action as per prescribed procedure was taken to recover the ED in cash.

(Paragraph 6.3.2.9)

Deposits amounting to ₹ 10.01 crore collected from organisers of events/performances were not forfeited and credited to the Government account as the organisers failed to submit the accounts in time. Further, demand drafts/cheques amounting to ₹ 47.41 lakh received on account of security deposits were not credited into the treasury in time which resulted in their being time-barred

(Paragraph 6.3.2.10(b))

6.3.1 Introduction

The levy and collection of Entertainments Duty (ED) is governed by the Maharashtra Entertainments Duty Act, 1923 (MED Act). As per the provisions of the Act and the Rules made there under, duty at prescribed rates is to be levied and paid to the Government on all payments for admission to any entertainment¹.

The levy and collection of ED comes under the jurisdiction of Revenue and Forests Department, however, the licensing of the entertainment centres in cities having a Police Commissionerate is done by the Home Department. In other areas, licences are issued by the respective District Collector.

The Act empowers the Government to exempt any entertainment or a class of entertainment from payment of ED by a general or special order. The District Collectors (DC) grant exemption to those entertainments which are organized for philanthropic or charitable purposes, educational or partly for educational purpose and partly for scientific purposes. The power to grant exemption by a general or special order to any entertainment or class of entertainment from liability to pay ED is exercised by the Revenue and Forests Department (R&FD).

Organisational set-up

The Principal Secretary to the Government of Maharashtra, Revenue and Forests Department, is responsible for the administration of the enactments in the whole of Maharashtra. He is assisted by six Divisional Commissioners at Konkan, Pune, Nashik, Aurangabad, Amravati and Nagpur, who in turn are assisted by the DCs and Taluka Magistrates (TMs) in Districts and Talukas respectively.

Levy, assessment and collection of ED: The DCs are assisted by Resident Deputy Collectors (RDCs), Taluka Magistrates (TMs), Entertainment Duty Officers (EDOs) and Entertainment Duty Inspectors (EDIs) for levy, assessment and collection of ED. They have to conduct periodic inspections of all the entertainment centres under their jurisdiction for correctness of the ED and evasion by new entertainment centres. Further, inspections of RDCs and TMs dealing with ED in the jurisdiction of any Division is carried out by Flying Squads under the supervision of the Divisional Deputy Commissioner (Entertainment Duty).

Audit objectives

The Performance Audit was conducted to ascertain whether:-

- levy, assessment and collection of Entertainments Duty was being done in accordance with the provisions of the Act and Rules issued thereunder
- the system of licensing was implemented efficiently and effectively and exemptions granted to any entertainment or class of entertainments were in conformity with the Act and Rules; and

¹ An entertainment includes any exhibition, performance, amusement, game or sport to which people are admitted on payment.

- an effective monitoring and internal control mechanism was in place to safeguard Government revenue .

Audit scope and methodology

Performance Audit of Entertainments Duty was conducted between January 2015 and May 2015 for the period 2010-11 to 2014-15 wherein records of nine² Collectorates, selected out of 35 Collectorates in the state on the basis of stratified random sampling, were test checked. The selection of districts was based on maximum revenue realisation and the geographical location of each district, in such a way that the sample represented the entire state.

Acknowledgement: An entry conference was conducted (March 2015) with the Principal Secretary, Revenue and Forest Department, Mantralaya, Mumbai wherein the scope of Audit, the audit objectives and criteria to be adopted was discussed for the conduct of the Performance Audit. The draft report was forwarded to the Government (July 2015). Thereafter an exit conference was conducted with the Secretary (November 2015) wherein the audit findings and the recommendations proposed by audit were discussed. The replies received during the exit conference and other points of time have been appropriately commented in the respective paras. Audit acknowledges the co-operation of the Department and subordinate offices for their assistance rendered during the audit.

Audit Criteria

Audit criteria adopted for ensuring the above audit objectives were:

- The Maharashtra Entertainments Duty Act, 1923
- The Bombay Entertainments Duty Rules, 1958
- The Collection of Entertainments Duty on Cable Television (Including Entertainments Duty Leviable on Direct-To-Home (DTH) Broadcasting Service) by Way of Public Auction Rules, 2003
- Maharashtra Treasury Rules, 1968
- Guidelines and instruction issued from time to time by State Government on levy and collection of ED
- General Financial Rules and other Statutory Acts and Rules in force.

6.3.1.1 Trend of revenue

Year-wise revenue collection for the period from 2010-11 to 2014-15 is shown in **Table 6.3.1.1**.

² Four (Mumbai City, Mumbai Suburban, Pune & Thane) districts having revenue more than ₹ 80 crore per year. Amravati, Bhandara, Latur, Nashik and Raigad were selected on the basis of geographical location.

Table 6.3.1.1

(₹ in crore)	
Year	Revenue collection
2010-11	530.46
2011-12	594.97
2012-13	684.43
2013-14	735.62
2014-15	725.81

It could be seen from the above that during 2014-15 the increase in revenue collection was 36.83 per cent as compared to 2010-11 which is appreciable.

6.3.1.2 Arrears of revenue

As per information made available by the Department, as on 31 March 2014, an amount of ₹ 49.94 crore was outstanding for recovery from various entertainment centres in the State as shown in **Table 6.3.1.2(a)**.

Table 6.3.1.2(a)

Sr. No.	Type of Entertainment Centre	Amount outstanding as on 31.03.2014 (₹ in crore)
1	Cable Operators	43.21
2	Theatres	0.42
3	Video Centres	0.20
4	Others	6.11
Total		49.94

Information as on 31 March 2015 was not available with the Department.

Section 9 of the MED Act stipulates that 'any sum due on account of entertainments duty shall be recoverable as an arrear of land revenue'.

Scrutiny of records in the office of Deputy Collector (BEDA), Zone-I, Mumbai revealed that the Department had issued demand notices between August 2010 and October 2010 to four pubs running in two five star hotels for payment of ED at the rates prescribed under Section 3(17) of the Act. The details are given in **Table 6.3.1.2(b)**.

Table 6.3.1.2(b)

Name of Five Star Hotel	Name of the pubs	Period during which ED paid @ ₹ 50,000/- per month	Non-recovery (₹ in lakh)
The Indian Hotel Company Ltd. Taj Mahal Hotel, Mumbai	Zodiac Grill	08/10 to 03/15	84.00
	Sea Lounge	08/10 to 03/15	84.00
	Star Board Bar	08/10 to 03/15	84.00
The Oberoi, Mumbai	The Eau Bar	08/10 to 03/13	48.00
Total			300.00

Despite a lapse of five years the amount has not been recovered so far. No action has been taken to recover the amount as arrears of land revenue under Section 9 of the MED Act.

During the exit conference, the Department accepted the fact and stated that recovery would be made.

Audit findings

6.3.2 Licencing of Entertainment Centres

6.3.2.1 Lack of coordination between Revenue and Forest Department and Home Department

The licencing of the entertainment centres in cities having a Police Commissionerate is done by the Home Department and is regulated under Rule 1 of the Rules³ framed under Bombay Police Act, 1951. In other areas, licences are issued by the respective District Collector. The levy and collection of ED of these entertainment centres comes under the jurisdiction of Revenue and Forests Department.

We called for the number of licences issued by the Commissioner of Police, Mumbai to entertainment centres in the City of Mumbai and compared it with the information available with the Collector, Mumbai and Collector, Mumbai Suburban District. Our comparison revealed that in case of video game parlours, discotheques and orchestra bars, the number of licences issued by the Commissioner of Police, Mumbai was more than the number of entertainment centres from which entertainment duty was being recovered, as mentioned in **Table 6.3.2.1**.

Table 6.3.2.1

Sr. No.	Type of entertainment centres	Entertainment centres as per records of the Collector		Total	No. of licences issued by Commissioner of Police, Mumbai	Difference
		Mumbai City	Mumbai suburban			
1	Video Game Parlour	77	191	268	392	124
2	Discotheque	8	11	19	40	21
3	Orchestra Bar	71	116	187	253	66
Total				474	685	211

Thus, it may be seen from the above that in 211 entertainment centres where licenses had been issued by the Commissioner of Police, Mumbai the ED was not being collected by the respective DC's.

Our test check revealed that out of these 211 entertainment centres, nine entertainment centres (eight in Zone-I and 1 in Zone IX, Mumbai City) to whom licences issued by the Commissioner of Police, Mumbai were

³ The Rules for Licensing and Controlling Places of Public Amusement (other than cinemas) and Performances for Public Amusement under Bombay Police Act, 1951

conducting business but ED was not being recovered from these centres by Collector of Mumbai. After this was pointed out, the Collector issued notices to these units.

During the exit conference, the Department accepted that there was a difference between the issued licenses and the entertainment centres paying ED. This was due to the fact that though certain centres renew their licenses with the Police Department, these centres were not functioning. A list of such inactive centres would be provided by the Department. Further the Department assured that a mechanism would be put in place whereby the Home Department and Revenue Department would coordinate on these licenses.

The Government may direct the Revenue and Forests Department to evolve a system of coordinating with the Home Department, which is the licensing authority in the Police Commissionerate areas; so that all licensed entertainment centres are brought under the scope of ED.

6.3.2.2 Non-recovery of ED for breach of exemption conditions

As per the MED Act, any payment made by way of sponsorship⁴ amount for a programme which is organized only for invitees without selling tickets attracts ED. Further, as per Section 6(3) of the said Act the State Government may, by general or special order, exempt any entertainment or class of entertainments from liability to ED subject to such terms and conditions, if any, as may be specified in the order.

During the period 2010-11 to 2014-15, the Government of Maharashtra in Revenue and Forests Department granted exemption to five events, out of which two events were conducted in Mumbai by M/s. Mijwan Welfare Society (MWS) based in Azamgarh, Uttar Pradesh. The MWS raised sponsorships of ₹ 84.00 lakh in 2011 and ₹ 52 lakh in 2012.

We noticed that the conditions on which the exemption were granted were breached as mentioned in following paragraph:-

- MWS was required to deposit ₹ 21 lakh in 2011 and ₹ 13 lakh in 2012 being 25 per cent of the sponsorship amount as security deposit with the Additional Collector, MSD, Bandra. However, no security deposits were made by MWS with the Government
- The detailed accounts of both the shows held in 2011 and 2012 had to be submitted to Additional Collector, MSD, Bandra within one month from the date of event by MWS. We noticed that the documents were not submitted to the Additional Collector.
- The proceeds from the shows were to be spent only in the State of Maharashtra on student's education, computer centre's modernisation, higher studies for women, welfare activities, home science workshop, beauty parlour training, etc. However, as the accounts of the proceeds of the show have not been submitted, it could not be established that 100 per cent proceeds had been spent in Maharashtra.

⁴ Here, sponsorship amount means an amount paid to the organiser of an entertainment programme by the sponsor in lieu of advertisement of sponsors product or his brand name etc.

- The Department had not taken appropriate steps to recover the ED, in spite of MWS not adhering to the conditions mentioned in the GRs. ED had to be recovered to the extent of ₹ 34 lakh for both the events.

During the exit conference, the Department stated that notice had been served on MWS and appropriate action would be taken to recover the ED.

6.3.2.3 Non/short recovery of ED

(a) Multi-dimensional entertainment centres

Multi-dimensional⁵ entertainment centres functioning in Mumbai and surrounding areas are to be levied ED as per Section 3 (1) (b) of MED Act on the payment for admission fixed by the proprietor at the prescribed rates.

It was noticed that five such entertainment centres comprising of 47 chairs were being treated as video centre and paying ED at ₹ 1,100 per chair per month instead of multi-dimensional entertainment centres. A few cases where multi-dimensional entertainment centres were not paying ED as per Section 3(1)(b) are listed in **Table 6.3.2.3(a)**.

Table 6.3.2.3(a)

Sr. No.	Name of entertainment centre	Office	No. of chairs/ seats
1	M/s. Max 9D Interactive Cinema, Little World Mall, Kharghar , Navi Mumbai	TM, Panvel	8
2	Velocity 7D cinema by M/s. Vogue Entertainment, Raghuleela Mall, Kandivali (West), Mumbai	TM, Borivali, Zone VII	8
3	9D theatre by M/s. Smaash Entertainment Private Limited, Kamla Mill Compound at Lower Parel, Mumbai	Dy. Collector (ED), Mumbai City	9
4	“7D movie” by M/s. Helion Entertainment at Growels Mall, Kandivali (East)	TM, Borivali, Zone VI	16
5	“7D adventures” at Viviana Mall, Thane	TM, Thane	6

In absence of the information regarding actual number of tickets sold for these attractions, the amount of loss of ED could not be quantified.

- Audit scrutiny of the TM Kurla at Mulund, Zone XI revealed that in one multi-dimensional entertainment centre (6D Theatre at R-City Mall, Ghatkopar) ED of ₹ 11.80 lakh was required to be paid at the rate of 25 *per cent* of the admission fees on ₹ 47.19 lakh for the year 2013-14 in accordance with Section 3(1)(b) of the Act, however the proprietor had paid only ₹ 6.16 lakh. This resulted in short recovery of ED of ₹ 5.64 lakh.

⁵ The type of entertainment presentation system called 4D film which combines a 3D film with physical effects that occur in the theatre in synchronization with the film. Such films, also called 5D/6D/7D/8D/9D films have special effects.

It could be seen from the above that there is a recurring loss of revenue due to application of incorrect rate of ED which needs to be plugged in respect of all such similar centres.

During the exit conference, Department accepted the audit observation and stated that these multi-dimensional centres would be charged ED on the admission rates fixed by these centres in accordance with Section 3 (1) (b) and recovery would be made.

The Government may direct the Revenue and Forests Department to strengthen its system for identifying multi-dimensional centres and levy ED as per the Act.

(b) Amusement parks/water parks/water rides

As per 2nd proviso to Section 3(b) of the MED Act, with effect from 21 December 2010, the ED is leviable at the rate of 15 *per cent* of the payment made for admission to the amusement park and water sports activity, including payment made for admission for games and rides, whether charged separately or not.

As per sub-section (a-1) of Section 3AA of the MED Act, with effect from 21 December 2010, surcharge is leviable at the rate of 10 *per cent* on the ED payable under the third proviso to clause 3(1)(b) in respect of water sports activity. Besides, as per Section 9(b) of the Act where the proprietor failed to pay duty payable under the act, he was liable to be charged interest at the rate prescribed in the Act.

Scrutiny of records of six amusement parks and 23 water parks in seven out of nine districts selected for the Performance Audit revealed as follows:

(i) Non-initiation of recovery proceedings: Our scrutiny of records in the office of the TM, Borivali, Zone-VII revealed that M/s Pan India Paryatan Private Limited, proprietors of amusement park called Essel World and water park called Water Kingdom, had paid ED amounting to ₹ 25.83 crore at the rate of 15 *per cent* during the period 13 January 1995 to 15 March 2007. In March 2007, the Bombay High Court observed that the company were liable to pay only ₹ 12.92 crore for the period at the rate of 7.5 *per cent* only. Thus, the company was entitled for refund of ₹ 12.91 crore. The Department has filed special leave petition against the judgement of High Court with the Supreme Court in 2008. Despite a lapse of seven years the case is still pending decision. The Department did not furnish any information regarding the status of the case, hearings held, etc.

The company is submitting weekly returns showing the liability of ED at the rate of 7.5 *per cent*, however no payment is being made by them since 1st July 2008. The Department has been issuing notices for payment of ED at the rate of 7.5 *per cent* as decided by the High Court. However, no further action under Section 9 of the MED Act to recover the money as arrears of revenue has been taken. Audit observed that as per the B forms submitted by the Company, the ED payable by the company during the period from 1 July 2008 to 2 April 2015 at 7.5 *per cent*, amounted to ₹ 24.26 crore. Even after allowing this against the refund of ₹ 12.91 crore, the company was liable to pay ₹ 11.35 crore. In addition to this, interest was also leviable.

With the passage of time chances of recovery of this accumulated due would become remote. As such the ED may be collected promptly and in case it is not paid, it may be recovered as arrears of Land Revenue under the Act.

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy ED.

(ii) ED on paid rides in Amusement park not assessed: As per Section 4(2) of the MED Act, every proprietor of the entertainment in respect of which the ED is payable under Section 3, shall apply to prescribed officer who shall allow him to run the business subject to filing of periodical returns and payment of ED.

Scrutiny of recovery register and other records in the office of the TM Borivali, Zone-VII, revealed that ED was being recovered on entry tickets at Essel World. Tickets for a number of paid attractions⁶ inside Essel World were being issued separately, however, proprietors of these paid attractions have neither applied for 4(2) permission nor paid ED on these. As per records, though it was in the knowledge of the Department since November 2011, no efforts were made to collect ED on these paid attractions. In absence of the information regarding actual number of tickets sold for these attractions, the amount of loss could not be quantified.

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy ED on them.

(iii) Short recovery of ED from amusement/water park: Test check of records in the offices of EDO Zone “O” Pune, and EDO Zone “A”, Pune revealed that in case of two amusement parks/water park, ED was being recovered at the rate of 10 *per cent* instead of 15 *per cent* which resulted in short recovery of ED of ₹ 8.33 lakh as shown in **Table 6.3.2.3(b)(iii)**.

Table 6.3.2.3(b)(iii)

(₹ in lakh)					
Sr. No.	Name of the amusement park/water park	Period of default	ED recoverable @ 15 <i>per cent</i> + surcharge, if applicable	ED recovered	ED short recovery
1	Fariya’s Resorts Lonavala	December 2010 to March 2014	15.89	10.59	5.40
2	Pushpak Amusements, Nigdi, Pune	2013-14 to 2014-15	9.22	6.15	2.93
Total					8.33

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy ED.

⁶ 7D Masti Theatre, Arctic Circle, Cricket Zone, Derby Racer, Laser Tag, Riki’s Rocking Alley (including bowling, coin games and crazy shuttle), Rock climbing, Virtual world and Trampoline

(iv) **Under Assessment of ED on Amusement Park:** During test check of records in the Office of the Collector, Raigad, we noticed that M/s Panoramic Resort, Karnala had paid ED amounting to ₹ 7.50 lakh in October 2014 for the period from 18 June 2012 to 17 June 2014 (during which exemption of 50 per cent was available to the resort) on a total of 1,37,852 tickets sold. The ED was calculated by considering the rate of admission ticket at ₹ 75. The demand so raised was paid by the resort in October 2014. However, as per information available on the website of Panoramic Resort and other allied websites, the rate of admission was ₹ 525 for weekdays and ₹ 570 for weekends during 2012-13 and 2013-14. Considering minimum rate of ticket at ₹ 525, the under assessment of ED worked out to ₹ 46.53 lakh as shown in **Table 6.3.2.3(b)(iv)**

Table 6.3.2.3(b)(iv).

Particulars	As per Department	As per Audit
Number of tickets sold during the period from 18 June 2012 to 17 June 2014	1,37,852	1,37,852
Entry Fee leviable	₹ 75	₹ 525
Total Amount	₹ 1,03,38,900	₹ 7,23,72,300
ED Payable @ 50 % of 15 % i.e.7.5%	₹ 7,75,417	₹ 54,27,923
Less: ED Paid	₹ 7,75,417	₹ 7,75,417
Balance payable	₹ 0	₹ 46,52,506

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy ED.

(v) **Non-levy of surcharge:**

We observed that surcharge at the rate of ten percent of ED as per Section 3AA of the MED Act was not recovered in three water parks/water sports activity centres as shown in **Table 6.3.2.3(b)(v)**.

Table 6.3.2.3(b)(v)

Sr. No.	Name of Unit	Name of Water Park	Period	Gross ED (₹ in lakh)	Surcharge to be levied @ 10% of ED (₹ in lakh)
1	TM, Borivali, Zone VII	Water Kingdom	21.12.10 to 31.12.15	815.69	81.57
2	TM Panvel	Panoramic Resort	18.06.12 to 17.06.14	54.28	5.43
3	Dy. Collector, Mumbai City, Zone III	Drishiti Adventures	2012-13 to 2014-15	38.04	3.80
Total					90.80

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy surcharge.

(vi) Non-levy of ED on Amusement Park/Boat rides:

Audit observed that ED was not being levied on the proprietors running amusement park and boat rides as shown in **Table 6.3.2.3(b)(vi)**.

Table 6.3.2.3(b)(vi)

Sr. No.	Unit Audited	Type of Entertainment centre	Rates of admission fee
1	EDO Thane	Wonder Park, Nerul run by NMMC	₹ 25/- to ₹ 35/-
2	EDO Thane	Masunda Lake, Thane	₹ 15/- to ₹ 40/-
3	Dy. Collector, Zone I, Mumbai	Boating Centre at Gateway of India, Mumbai	NA

In the absence of information regarding the number of tickets sold, the amount of fees on which ED was leviable could not be worked out.

In the exit conference, Secretary R&FD stated that suitable action would be taken to levy ED.

(c) Cable Operators

As per Section 3(4) of the MED Act, there shall be levied and paid by the proprietor to the State Government, the ED at the rate specified from time to time.

Test check of records of 59 units in nine districts revealed that ED amounting to ₹ 6.64 crore was not paid by 1,090 cable operators out of test-checked 5,979 cable operators during various period between 2011-12 and 2014-15. The demands were not raised by the concerned collectors resulting in non-realisation of ED to that extent.

During exit conference, the Department stated that recovery was in progress.

(d) Permit rooms/beer bars with live orchestra

As per Section 3 (11A) of the MED Act there shall be levied and paid in advance by the tenth of every calendar month by the proprietor of every permit room or beer bar with live orchestra, the ED in respect of entertainment in such permit room or beer bar with live orchestra, to the State Government, at the rates of ₹ 50,000 per month in case of areas within the limit of Municipal Corporations.

During test check of records of 20 offices in five⁷ districts, it was noticed that ED amounting to ₹ 3.03 crore was not paid by the proprietors of 111 permit room/beer bars during various periods between 2011-12 and 2014-15. The demands were also not raised by the respective prescribed officers against these permit rooms/beer bars resulting in non-recovery of ED of ₹ 3.03 crore.

During exit conference, the Department stated that the recovery was in progress.

⁷ Mumbai City, Mumbai Suburban, Pune, Raigad and Thane

6.3.2.4 Non-recovery of penal interest on delayed payment of ED

As per Section 9B of the MED Act, if the proprietor who provides the entertainment fails to pay the amount of ED due under Section 3 or composition sum so fixed under Section 9A within prescribed period, he shall be liable to pay to the State Government in addition to the amount of ED or composition sum so payable, a penal interest @ 18 per cent per annum for the delay of first 30 days and @ 24 per cent per annum thereafter on such amount became or becomes payable till the amount and interest is fully paid.

During test check of records of 66 units we noticed in 17 units that there were delays ranging from two days to 1,535 days in the payment of ED by the proprietors of various entertainment centres to the Government, however, penal interest was not levied on account of the delays. The penal interest on the amount paid with delay worked out to ₹ 1.02 crore.

During exit conference, the Department stated recovery would be carried out as per the provisions of the Act.

6.3.2.5 Non-formation of Advisory Committee for grant of exemption to cinemas

As per the provisions of Section 6(3) of MED Act, the State Government can exempt any entertainment or class of entertainments from liability to entertainments duty subject, to such terms and conditions as may be specified in the order. Further, Rule 24 of Bombay Entertainments Duty Rules, specifies the following criteria for qualification of various classes of cinema for exemption:

- Cinema which has been awarded the President's Gold Medal, or
- Cinema which the State Government on a recommendation made by the Advisory Committee appointed by the State Government for the purpose considers as fulfilling an educational, cultural or social purpose of a high order.

Government issued a GR (September 2002) which laid down the following conditions for the formation of Advisory Committee:

- The Committee had to be formed under the Chairmanship of Principal Secretary (Revenue and Forest).
- The Committee would consist of five Government Officials and five non-Government members from the film fraternity viz., story writers, Directors, Music Directors, Choreographers and Cinematographers. A panel of 25 members had to be appointed and from these 25, five members by rotation would be in the Committee for a period of three years on honorary basis without any remuneration.
- The Committee had to process the requests for exemption of ED by examining the films so put up. In these proceedings it was compulsory for the five Government Officials and at least three non-Government persons appointed to be present. The Committee after deliberating on the merits/demerits of the film had to decide on granting or non-granting of the exemption of ED on a majority decision.

We called for records regarding the formation of the advisory committee. However, it was stated (November 2014) by the Department that the file containing correspondence regarding formation of the advisory committee was destroyed in the fire in Mantralaya in 2012. As per information obtained from Revenue and Forest Department, 18 films were granted exemption from payment of ED for periods ranging from two months to one year during the period 2008-09 to 2013-14 by the ad-hoc committee.

Thus, even after lapse of a period of 12 years since the issue of the GR, Advisory Committee required to be formed as per the GR (2002) has not been formed till date shows that the decisions on the exemptions were being taken by the ad-hoc committee which was improper.

Internal control

6.3.2.6 Shortfall in inspection by divisional flying squads, Dy. Commissioner (ED) and non-submission of quarterly returns to Government

- As per Government of Maharashtra in Revenue and Forest Department circular dated 24 April 1997, the divisional flying squads formed under the supervision of Deputy Commissioner (ED) at divisional level shall undertake detailed inspection of at least 12 entertainment centres in a month. Similarly, the Deputy Commissioner (ED) at divisional level shall conduct detailed inspection of at least one entertainment branch of the Collector office of minimum one district and entertainment branch of minimum two Talukas in a month.

The targets of inspections by flying squads and of Dy. Commissioner Office of the six divisions and the achievements against them during the years 2010-11 to 2014-15 are shown in the following tables:

Table 6.3.2.6 (a)-Inspections by Flying squad

Year	Target	Achievement	Short fall (in %)
2010-11	864 ⁸	582	32.64
2011-12	864	844	2.31
2012-13	864	800	7.41
2013-14	864	756	12.50
2014-15	864	635	26.50

⁸ 12 months x 12 entertainment centres x 6 Divisions

Table 6.3.2.6 (b)-Inspections of Collector's Office by Dy. Commissioner (ED)

Years	Target	Achievement	Short fall (in %)
2010-11	72 ⁹	27	62.50
2011-12	72	23	68.05
2012-13	72	16	77.77
2013-14	72	23	68.05
2014-15	72	16	77.77

Table 6.3.2.6(c)- Inspections of TMs offices by Dy. Commissioner (ED)

Years	Target	Achievement	Short fall (in%)
2010-11	144 ¹⁰	87	39.58
2011-12	144	124	13.88
2012-13	144	87	39.58
2013-14	144	89	38.19
2014-15	144	47	67.36

From the above tables it can be seen that there was shortfall in inspections ranging from 2.31 per cent to 77.77 per cent.

- **Non-maintenance of registers:** We noticed that the registers as required in circular dated 24 April 1997 issued by R&FD to monitor conducting of the inspections and action taken thereafter were not maintained in two divisions¹¹ out of the six divisions test checked. The defaulting offices stated that the registers will be maintained henceforth.
- **Non-submission of quarterly reports:** We noticed that the quarterly report required to be sent as per circular dated 24 April 1997 were not being submitted to the Government by five¹² divisions out of the six divisions test checked.

Thus, the shortfalls in inspections in the ED branches of Collector and Taluka Offices and non-maintenance/submission of registers/returns is a matter of serious concern as these are vital internal controls for safeguarding the Government Revenue and need to be strengthened.

During exit conference, the Secretary accepted the facts and stated that the issues would be addressed.

6.3.2.7 Lack of control in monitoring the DTH service providers

The Government of Maharashtra vide Revenue and Forest Department GR dated 4 September 2008, declared the Collector, Mumbai City as prescribed officer for registration/grant of permission, levy and collection of ED from

⁹ 12 months x 6 Divisions

¹⁰ 12 months x 2 Talukas x 6 Divisions

¹¹ Nagpur and Nashik

¹² Amravati, Aurangabad, Nashik, Nagpur, Konkan

DTH service providers in the entire state of Maharashtra. As per clause 3(1) of the above said GR, DTH service providers are required to furnish district-wise details of connections and the ED payable thereon in Annexure V, duly certified by a chartered accountant, at the time of making centralized payments of ED.

Our scrutiny of the records relating to levy and collection of ED from the six¹³ DTH service providers in the State, revealed that none of the service providers have submitted details in Annexure V duly certified by chartered accountant.

Further, as per clause 5 of the aforementioned GR, the following actions were required to be taken by every District Collector for effective control over levy and collection of ED from DTH service providers

- Each DC has to obtain the copy of permission in form 4(2)(b) issued by Collector of Mumbai City in respect of each service provider and maintain independent registers and records of payment of ED and accountal thereof in respect of his District.
- Each DC has to check the correctness of ED paid on the basis of total connections mentioned in the statement of returns furnished to Collector, Mumbai City every month in respect of each DTH service provider.
- Each DC has to undertake periodical local survey of DTH connections in respect of each service provider in his District and compare the connections with the connections declared by the each service provider in the monthly returns prescribed and if any discrepancies were noticed he should bring the same to the notice of the Collector, Mumbai City.

Test check of records at nine Collectorates revealed that only the permissions in form 4(2)(b) were on record and other requirements were not complied with. Further, as no reports regarding survey of DTH connections were available on record, it could not be ascertained whether the concerned inspectors were undertaking local surveys. In absence of certified returns, the correctness of ED paid by the DTH service providers could not be verified in audit.

During the exit conference, the Department stated that the monitoring and control of the DTH service providers would be carried out as per GR in future.

The Government may direct the Department to take effective steps to ensure submission of returns duly certified by CA, by the DTH service providers and to conduct surveys to ascertain the correctness of these returns.

6.3.2.8 Non-levy of penalty for non-submission of returns

As per provisions contained in Section 4B(4) of the MED Act, if a proprietor of entertainment centre does not furnish returns in respect of any entertainment within the time prescribed in that behalf, the prescribed officer,

¹³ 1.Dish TV Ltd. 2.Tata Sky Ltd. 3.Bharati Telemedia Ltd. (Airtel) 4.M/s Reliance Big TV Ltd. 5.M/s Sun Direct TV Ltd. 6.M/s Bharat Business Channel Ltd. (Videocon).

shall levy by way of penalty, in addition to the amount of duty so assessed a sum not exceeding one and a half times that amount of the ED leviable.

Test check of records of EDO, Pune and TM, Panvel revealed that proprietors of following water parks/amusement centres, though regularly submitting copies of challan as proof for payments for ED, have neither submitted prescribed returns in Form B¹⁴ and Form E¹⁵ nor the prescribed officers have levied penalty, in addition to the amount of duty payable, as per the provisions of the Act.

- M/s. MTDC, Karla, Tal-Maval, Dist-Pune
- M/s. Kumar Resort and Water park, Lonavla, Tal-Maval, Dist-Pune
- M/s. Fariyas Resort, Lonavla, Tal-Maval, Dist-Pune
- M/s. Della Adventures (amusement park), Dist-Pune
- M/s. Amby Valley, Sahara City, Tal-Mulshi, Dist-Pune
- M/s. Lakeshore Water sport, Mulshi (Lavasa), Dist-Pune
- M/s. Panoramic Resort (Water and Amusement Park), Dist-Raigad
- M/s. Krushnai Water Park and Resorts, Pune

Non-submission of returns by the proprietors is fraught with the risk of leakage of revenue. Therefore, the option of assessment under best judgement should be exercised in such cases, so that the proprietors submit the prescribed returns henceforth.

During the exit conference, the Department stated that action would be initiated on the eight centres as per the provisions of the Act.

6.3.2.9 Non-recovery of ED on account of dishonoured cheques

As per provision under Section 138 of Negotiable Instruments (Amended) Act, 1988, if any cheque issued by any party is dishonoured for reason of insufficient funds etc., it is to be dealt with as criminal offence and in addition the amount should be recovered in cash against the dishonoured cheque.

Scrutiny of dishonoured cheque register in the test-checked offices revealed that in 24 units, 151 cheques amounting to ₹ 65.48 lakh for the period from 2012-13 to 2014-15 were dishonoured, however, the Department had not initiated any action under Section 138 of the Negotiable Instruments (Amended) Act, 1988 for recovery of ED.

The Government may direct the Department to take prompt action in cases of dishonour of cheques, so that the interest of revenue was protected.

During the exit conference, the Department stated that recovery would be carried out as per the provisions of the Act.

6.3.2.10 Security deposits

(a) Non-payment of security deposit by the service providers: As per Rule 14 (1) of Bombay Entertainments Duty Rules, 1958 every proprietor

¹⁴ Form B- Statement of tickets and the ED payable

¹⁵ Form E- Return of complementary tickets

shall furnish such security to the prescribed officer as that officer may require. In the case of DTH service providers the Collector Mumbai is the prescribed officer for fixing the amount of security deposit. However, the District Collector Mumbai while issuing licenses every year to the six DTH service providers does not fix the amount of security deposit. In every licence issued by the Collector, it is mentioned in condition no. 16 that the proprietor shall furnish 10 *per cent* security deposit in the form of bank guarantee for the respective calendar year on its approval by the Government.

We noticed that the Government's approval to the proposal was not received till date in any case and no security deposits had been obtained from DTH service providers. The submission of the proposal to the Government was not correct as the Collector was himself empowered to fix the amount of security deposit under the Act. This is fraught with the risk of non-realisation of Government revenue in case the service providers default in payment of revenue.

(b) Non-forfeiture of security deposit: As per Rule 14(2) if a proprietor fails to submit any returns as required by Rule 16 or 21 or to pay within the period prescribed by the District Collector, he may, after giving the proprietor a week's notice direct that the security shall be forfeited to the State Government.

- Personal Ledger Accounts (PLA) are being maintained only in the offices of Dy. Collector (ED), Mumbai City and Addl. Collector (Mumbai Suburban District) for transactions pertaining to security deposits obtained in respect of special events. This practice is not followed in other districts. During the test check of the PLAs and cash books of these two offices, we noticed that security deposits of ₹ 5.86 crore and ₹ 4.15 crore collected from organisers of 328 and 347 events during 2013-14 and 2014-15 respectively were still lying in PLA, outside the consolidated fund of the State. Despite the failure on the part of the proprietors to submit return and accounts within the stipulated time period after the date of entertainment, the concerned officers had not issued notices for forfeiture of security deposits.
- In the office of EDO, Thane, we noticed that during 2012-13, 2013-14 and 2014-15, cheques amounting to ₹ 42.26 lakh were received as security deposit from organisers of 84 events. However, there was nothing on record to indicate that the amount had been credited to Government account as security deposit. The columns indicating the date of credit thereof into the Government account by way of challans or otherwise in the register of cheques were kept blank against the entry numbers of the cheques.
- In addition, nine cheques amounting to ₹ 6.48 lakh (in EDO, Thane) received from nine organisers of events as security deposit during the year 2013-14 and 2014-15, were not deposited till date and had become time-barred.

(c) Non-transfer of security deposit to Government Account: In the office of the Deputy Collector (ED), Mumbai City, in 40 cases out of ₹ 13.03 lakh kept in PLA for the year 2013-14 on account of ED, ₹ 3.80 lakh was

refunded to organisers. The remaining amount of ₹ 9.23 lakh was required to be credited to the Government account which was not done till date.

(d) Delay in remittance of ED to the Government Account: During the scrutiny of files in the office of EDO, Pune, relating to one day international match between India and Australia held at the Subroto Roy Sahara Stadium, Maval, Pune, on 13 October 2013, which was organised by the Maharashtra Cricket Association (MCA), we noticed that the organiser had deposited two demand drafts for ₹ 10.20 lakh and ₹ 30.73 lakh for advance ED. We noticed that the demand drafts were not en-cashed and amount was not credited to the Government account. The demand drafts had remained unattended for a period of one and a half year and had become time-barred. Thus, the amount of ₹ 40.93 lakh remained unrealised.

During exit conference, the Secretary stated that the amount has been credited to the government account after being pointed out by audit.

6.3.2.11 Non-conducting of spot verification of events and non-submission of Inspection Reports by EDOs /AEDOs

As per provisions of MED Act, events where admission tickets are issued, ED is levied on the cost of admission tickets and in case of unticketed events which had sponsors, ED is recoverable at the rate of 25 per cent of the sponsorship amount, otherwise no ED is recoverable. The Department, however has to verify the correctness of the facts furnished by the organisers prescribed under the GR dated 5 January 2006.

Test check of records at Deputy Collector, Mumbai City (Exemption) revealed that 882 and 790 un-ticketed events were conducted during 2013-14 and 2014-15 respectively. All these events were conducted without receipt of any sponsorship. It was observed that not a single spot verification report was available on record but exemptions were allowed in all cases. In absence of this information, it could not be ascertained whether the Department had granted the exemptions correctly. The chances of grant of incorrect exemption cannot be ruled out as is evident from the following case.

- A perusal of invitation cards available in the office files of the Department revealed that, the event “9th Renault Star Guild Award Function” was sponsored by automobile company “Renault” as was evident from the logo of the company printed on the back side of the invitation card.

During the exit conference, the Department stated that instructions would be issued and spot verification would be diligently instituted.

Non-verification of the contents of the affidavit could result in possible loss of revenue as the possibility of other sponsored functions escaping ED as un-sponsored functions could not be ruled out.

6.3.2.12 Non-submission and non-scrutiny of Service Charge Accounts

As per provisions of Section 2(b) of the MED Act, the proprietor of theatres shall submit by 30th September of every year to the concerned Collector, the audited accounts of Service Charges collected and spent by him towards

maintenance and providing facilities and safety measures as provided in the Act. Further, the audited accounts regarding utilization of service charges received from the proprietors should be scrutinized up to 31st December every year.

Test check of records of five units in four districts revealed that proprietors of 112 theatres/multiplexes had not submitted their service charge accounts for 2011-12 to 2013-14. Similarly, in 23 units in eight districts, we noticed that service charge account of 391 theatres/multiplexes for 2011-12 to 2013-14 were pending for scrutiny and approval by the Department. We could not ascertain how the Department verified the correctness of the utilisation of service charges.

On this being pointed out, the Department stated that verification was in process and audit would be intimated in due course.

6.3.2.13 Non-reconciliation of Personal Ledger Account with RBI and Difference in PLA Abstract

Deputy Collector, Mumbai City (Exemption), Mumbai has been maintaining a Personal Ledger Account (PLA) with RBI for depositing Security Deposit received from the proprietors of special events. ED received in advance as security deposit is first credited to this account and after receipt of the accounts and returns on the completion of the event, the amounts are either credited to Government account or refunded back to proprietors as per return.

Scrutiny of the records of the Deputy Collector, Mumbai City, Mumbai and RBI scrolls¹⁶ revealed that:

- The closing balance in the cash book as on 31 March 2015 was ₹ 4.11 crore, whereas the balance shown in the RBI scroll as on 31 March 2015 was ₹ 4.81 crore. The difference of ₹ 0.70 crore was not reconciled till date of audit.
- The closing balance as per the PLA Cash Book as on 30 September 2014 was ₹ 17.65 crore, whereas total of the abstract prepared for the details of the closing balance was ₹ 19.21 crore as on 30 September 2014. Thereafter the abstract has not been prepared by the Department. Thus, there was a huge difference of ₹ 1.56 crore which required reconciliation.

Non-reconciliation of the PLA with cash book exposed the Department to the risk of mismanagement of cash.

During the exit conference, the Department stated that reconciliation of the PLA account with the RBI would be carried out.

6.3.3 Conclusions and Recommendations

The Performance Audit indicated that the departmental machinery was not able to effectively enforce the provisions of the MED Act and Rules made thereunder in the levy and collection of ED, resulting in various cases of non-recovery, short recovery, incorrect grant of exemption, etc. The Department also did not take prompt remedial action in cases of non-submission of returns

¹⁶RBI monthly statement of credits and debit in the PLA

by proprietors of entertainments centres as well as dishonour of cheques received for payment of ED by the entertainment centres. Non-adherence to prescribed procedures were also noticed, wherein prescribed returns were not being furnished by the concerned officers. Also, no watch on receipt of such returns was kept in the higher offices, which showed lack of internal control.

There was no co-ordination between the Revenue and Forests Department and the Home Department. The Revenue & Forests Department was ignorant of the number of licenses issued by the Commissioner of Police, Home Department with the result that number of licensees remained outside the net of ED.

- **The Government may direct the Revenue and Forests Department to evolve a system of coordinating with the Home Department, which is the licensing authority in the Police Commissionerate areas, so that all licensed entertainment centres are brought under the scope of ED.**

There were a number of cases where the provisions of the Act/GRs were not followed, returns/registers were not maintained, shortfall in conducting inspections were also noticed, surveys were not being conducted and correctness of the returns was not ascertained in case of DTH service providers.

- **The Government may direct the Department to take effective steps to ensure submission of returns duly certified by CA by the DTH service providers and to conduct surveys to ascertain the correctness of these returns.**

Multi-dimensional entertainment centres could not be identified by the Department, ED on these new areas though provided in the Act was not levied correctly as these were treated as video game parlours.

- **The Government may direct the Department to strengthen its system for identifying multi-dimensional entertainment centres and levy ED as per the Act.**

Other audit observations

6.4 Non/short recovery of Entertainments Duty (ED) from cable operators

Resident Deputy Collector: Nanded, Taluka Magistrates: Ambajogai, Kalmeshwar, Kinwat and Saoner

ED amounting to ₹ 14.06 lakh was not paid by 57 cable operators

As per Section 3(4) of the MED Act, there shall be levied and paid by the proprietor to the State Government, the entertainments duty at the rate specified from time to time.

Test check of records of five offices in August 2013, revealed that ED amounting to ₹ 14.06 lakh was not paid by 57 cable operators during different periods between April 2010 and March 2013. The demands were not raised by the concerned collectors resulting in non-realisation of ED to that extent.

After we pointed out these cases, the TM Kinwat stated that demand notice would be issued after due verification and recovery details would be communicated. The remaining four officers accepted the observation and stated that recoveries would be effected. A report on recovery has not been received.

We reported the matter to the Government in April 2015; their reply has not been received (February 2016).

6.5 Short remittance of State Education Cess and Employment Guarantee Cess

Dy Commissioner of Tax, Bhiwandi Nizampur City Municipal Corporation, Bhiwandi

Amounted collected on account of Education Cess and Employment Guarantee Cess was short remitted by ₹ 5.10 crore

As per the provisions under Sections 4 and 6(b) of the Maharashtra Education and Employment Guarantee (Cess) Act read with rule 4 of Education (Cess) Tax on Lands and Buildings (Collection and Refund) Rules, 1962, amount of cess and penalty collected by any Municipal Corporation (MC) during any calendar week is required to be credited into the Government account before the expiry of the following week. If any MC defaults in payment of any sum under the Act, Government may, after holding such enquiry as it thinks fit, fix a period for the payment of such sum. The Act also empowers the Government to direct the bank/treasury in which the earnings of the MC are deposited, to pay such sum from the bank account to the Government. There is no provision in the Act to levy interest or penalty on delayed remittances of Government revenue by the MC.

During the scrutiny (January 2014) of the Tax Collection Registers of the Bhiwandi-Nizampur City Municipal Corporation, Bhiwandi, we noticed that the MC had remitted an amount of ₹ 11.70 crore out of ₹ 16.80 crore collected as Education Cess and Employment Guarantee Cess during the years 2010-11, 2011-12 and 2012-13, thereby resulting in short-remittance of ₹ 5.10 crore.

After this was brought to notice, the Corporation stated that due to poor financial condition of the Corporation, amount was not credited to the Government account.

The matter was also brought to the notice of the Department in August 2014. However, details of action taken by the Department have not been received.

We reported the matter to the Government in July 2015; their reply has not been received (February 2016).

CHAPTER VII

NON-TAX RECEIPTS

7.1 Results of audit

We reported short levy, loss of revenue etc. amounting to ₹ 253.60 crore in seven observations as mentioned in **Table 7.1** on the basis of test check of the records relating to non-tax receipts conducted during the year 2014-15:

Table No. 7.1

(₹ in crore)			
Sr. No.	Category	No. of observations	Amount
1	Performance Audit on “Systems and Controls in collection of Mineral Receipts”	1	247.51
2	Loss of revenue due to deterioration in transit/ in sale/ in resale/ due to non-extraction/ non-lifting of material other than bamboo	6	6.09
Total		7	253.60

In response to our audit observations pointed out during the year 2014-15 as well as earlier years, the concerned Department accepted underassessment, short levy, etc. and recovered ₹ 1.31 crore in one observation pertaining to earlier years.

A Performance Audit on “**Systems and Controls in collection of Mineral Receipts**” involving ₹ 247.51 crore is included in the succeeding paragraph.

7.2 Performance Audit on “Systems and Controls in collection of Mineral Receipts”

Highlights

- Scrutiny of records revealed that in case of major minerals ‘Bauxite’ and ‘Limestone’, 865 applications of PL and 269 of ML were pending for disposal hampering the process of establishment of new area of mining and augmenting the state revenue.

(Paragraph 7.2.2.1)

- We noticed that in five cases the lessees had extracted mineral either in excess of the Mining Plan or without the approval of Mining Scheme. However, action for violations relating to extraction of 4.03 lakh MT mineral valued at ₹ 6.23 crore without any lawful authority was not taken.

(Paragraph 7.2.2.3(a))

- We found that there was no sharing of information between the DGM, MoEF and IBM (GOI) to trace the excess extraction/production of the mineral. The quantity mentioned in EC was at variance with the quantity mentioned in the scheme of mining and the quantity actually extracted by the lessees.

(Paragraph 7.2.2.3(b))

- In Kolhapur, two lessees provided false information for obtaining EC in December 2006. The leases were cancelled by the MoEF in August 2012 and November 2013. The quantity of bauxite extracted during illegal occupation by both lessee was 26.97 lakh MT valued ₹ 30.02 crore. The same was not recovered by the State Government in terms of Section 21(5) of MMDR Act.

(Paragraph 7.2.2.4)

- Scrutiny of Inspection Reports in DGM/Dy. Director, Kolhapur revealed two cases of excavation of 1.41 lakh MT of Bauxite outside the lease area. The lessees were liable to pay the penalty at ₹ 5.80 crore.

(Paragraph 7.2.2.5)

- Six lessees had transferred lease right to an agent through irrevocable Power of Attorney and Development Agreement without approval of Government and agent extracted 32.97 lakh MT of mineral valued ₹ 60.83 crore without lawful authority.

(Paragraph 7.2.2.6)

- The short fall in collection of royalty of ₹ 6.54 crore was noticed in case of seven lessees. The short fall was due to lack of efforts to scrutinise returns submitted by lessee.

(Paragraph 7.2.2.7(a))

- The GoM did not have a centralized data about quantum of minor mineral (other than sand) and location thereof as a result the management of the minor mineral like precious/semi precious stones, hill cutting, measurement of quarry leases etc.; could not be effectively monitored.

(Paragraphs 7.2.3.1)

- Though, the rates of royalty of the ordinary earth were revised from February 2010, the departments responsible for collection of the royalty continued to recover the royalty at pre revised rates, besides the collecting departments either did not credit royalty at all or credited less than that collected into the Government account. This resulted in short/non-recovery of royalty of ₹ 7.74 crore.

(Paragraph 7.2.3.2)

- The lease rent of ₹ 12.90 crore for the year 2014 in case of 28 leases of minor mineral and 13 leases of major mineral was not levied on Government land leased out for mining activities.

(Paragraph 7.2.3.4)

- We noticed that during 2010-14 out of 3,096 sand ghats identified for auction, 1,598 sand ghats having an upset price of ₹ 994.90 crore could not be auctioned.

(Paragraph 7.2.3.5(b))

- In Kolhapur and Nagpur, 122 sand ghats involving revenue of ₹ 24.88 crore were not put to auction during 2012-14 due to non-receipt of EC.
- In Thane, nine sand ghats though marked for extraction of sand could not be auctioned during 2012-14 due to non-receipt of a report on Environment Impact Assessment (EIA). The ghats had the potential of generating revenue to the extent of ₹ 72.25 crore.

(Paragraph 7.2.3.5(c))

- Lack of information sharing between Revenue Department, Regional Transport Office and Police in referring the cases of illegal transportation of minerals was noticed.

(Paragraph 7.2.3.7)

- Stamp duty of ₹ 31.84 lakh was neither levied nor paid on the bid amount of ₹ 106.13 crore in respect of auction of 448 sand ghats during 2012-14. In case of minor minerals, stamp duty and registration fees of ₹ 48.78 lakh was not levied by the department.

(Paragraph 7.2.3.9)

- In Thane, permits for extraction of sand or sand mix clay of 3.48 lakh brass on payment of royalty of ₹ 20.56 crore was allowed without EIA study, thus, environment impact of such huge extraction was not assessed.

(Paragraph 7.2.3.10(a))

7.2.1 Introduction

Mineral are valuable natural resources which are finite and non-renewable. Mineral exploration and development is closely linked with development of economy of the State. However, as it intervenes with the environment and social structure, a harmony and balance is to be maintained between conservation and extraction in the interest of sustainable development. The responsibility for the management of mineral resources is shared between the Central and State Government.

Minerals are classified as major minerals (coal, bauxite, limestone, iron ore etc.) and minor minerals (sand, stone, murum, ordinary earth etc.). The Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and the rules framed there under govern the regulation of mines and development of major minerals.

Legislations for exploitation of minor minerals have been delegated to the State. There were separate rules for regulation of minor mineral i.e. Bombay Minor Mineral Extraction Rule, 1955, Minor Mineral Extraction (Vidarbha Region) Rule, 1966 and Rules Regulating the Working of Minor Minerals, 1954 (Aurangabad Division). However, in supersession of the above rules, State Government framed Maharashtra Minor Mineral Extraction (Development and Regulation) Rules, 2013 effective from 24th October 2013 that is applicable uniformly throughout the State.

In Maharashtra, revenue receipt from the mines and mineral is the highest non-tax revenue after interest receipts. The receipts are mostly in nature of rent, royalty, fees, fines and penalties etc. The State Government has framed the 'State Mineral Policy, 1999' in pursuance of National Mineral Policy, 1993. Thereafter, National Mineral Policy of 2008 was framed by Government of India in March 2008 but State Government has not framed any other policy in pursuance of this mineral policy.

Organizational set-up

At the apex level, the administration of the relevant Acts and the Rules framed there under is entrusted to the Principal Secretary, Industries, Energy and Labour Department (IE&LD) for major minerals. The Director, Geology and Mining (DGM), Nagpur is the State level head of the Directorate of Geology and Mining and is assisted by four regional Deputy Directors and District Mining Officers (DMOs).

The Principal Secretary, Revenue and Forest Department (R&FD) is entrusted with the administration of rules governing the management of minor minerals. He is assisted by the District Collector, Sub Divisional Officers (SDOs) and Tahsildars who grant mineral concessions by way of permits for mining/quarrying of minor minerals.

Indian Bureau of Mines (IBM) promotes systematic and scientific development of mineral resources of the country through regulatory inspections of mines, approval of mining plan and environment management plan to ensure minimal adverse impact on environment.

Audit Criteria

The Performance Audit was based on following audit criteria:

- Mines and Minerals (Development and Regulation) Act, 1957;
- Mineral Concession Rules, 1960;
- Mineral Conservation and Development Rules, 1988;
- State Mineral Policy, 1999;
- Bombay Minor Mineral Extraction Rules, 1955;
- Minor Mineral Extraction (Vidarbha Region) Rules, 1966;
- Maharashtra Minor Mineral Extraction (Development and Regulation) Rules 2013;
- Maharashtra Land Revenue Code, 1966;
- Central and State Government's resolutions, orders and notifications issued in this regard, from time to time.

Audit Objectives

Audit was conducted with a view to ascertain that:

- Adequate rules and procedures were put in place for augmentation of receipts from minerals.
- Levy and collection of mineral receipts was done in accordance with the Acts, Rules and Orders issued from time to time.
- A system was in place for timely detection of unauthorized extraction and to prevent illegal transportation of minerals.

Scope and Methodology

Coal, Limestone and Bauxite are the highest contributor of revenue in the major mineral. Of these, Performance Audit of Allocation of Coal Blocks and Augmentation of Coal Production (Ministry of Coal) was conducted and included in the C&AG's Audit Report No. 7 of 2012-13. As such coal was excluded from the scope of audit. The Performance Audit (PA) was conducted between February 2015 and July 2015 covering the periods from 2009-10 to 2013-14.

Audit selected nine districts¹ out of the 36 districts of the State for conducting audit. The districts were selected on the basis of revenue realised by each district and on the basis of statistical sampling. In addition to this audit obtained information from Indian Bureau of Mines (IBM), concerned Regional Transport Offices (RTOs) and cross checked the same with the records of the Department. Environmental and other issues noticed in extraction of mineral and grant of lease have also been commented at appropriate places.

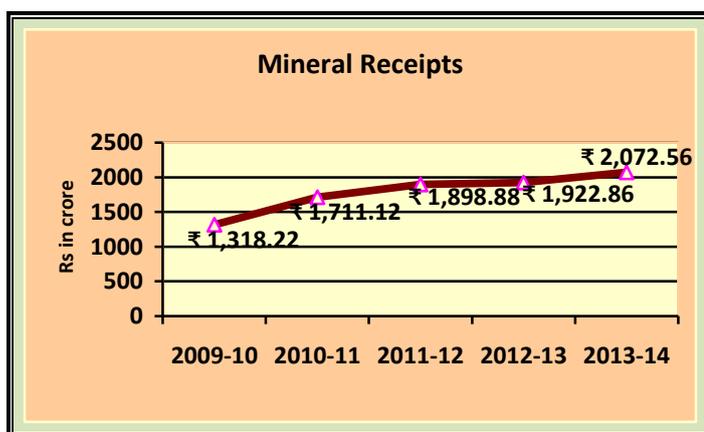
¹ Chandrapur, Kolhapur, Nagpur, Nasik, Pune, Raigad, Satara, Thane and Yavatmal

Acknowledgement

At the outset, an entry conference was held with Principal Secretary, IE&LD and Principal Secretary, R&FD in March/April 2015, wherein the audit objectives, scope and methodology to be adopted in conducting the audit were discussed with the departments. The Draft PA was forwarded to the concerned Principal Secretary, IE&LD and Principal Secretary, R&FD of the Government in August 2015. An exit conference was held in November 2015 with Principal Secretary, IE&LD and Principal Secretary, R&FD to discuss the audit findings and recommendations. Replies received during the exit conference and at other point of time have been included and commented in the relevant paragraphs.

7.2.1.1 Receipts from mineral

The receipts from major and minor minerals during 2013-14 and its corresponding figures from 2009-10 are indicated in the following graph.



Source:- Finance Accounts during the year 2009-10 to 2013-14.

It would be seen from the above that there was gradual increase in receipts of the mineral except during 2010-11, where the sharp rise was due to increase in rates of royalty for minor mineral from February 2010.

7.2.1.2 Need for timely reconciliation of the Accounts by the Department

We noticed that the figures available with the Department were at variance with the audited finance account finalised by Principal Accountant General (A&E)-I, Mumbai, as detailed in **Table 7.2.1.2**.

Table 7.2.1.2

(₹ in crore)				
Year	Actual receipts as per State Finance Account	Receipt as per IE&LD		
		Total of Major and Minor Mineral	Major Mineral	Minor Mineral
1	2	3	4	5
2009-10	1,318.22	1,394.36	631.17	763.19
2010-11	1,711.12	1,716.37	664.68	1,051.69
2011-12	1,898.88	1,943.22	698.63	1,244.59
2012-13	1,922.86	1,937.10	881.73	1,055.37
2013-14	2,072.56	1,960.29	976.94	983.35
Total	8,923.64	8,951.34	3,853.15	5,098.19

(Source: Information from Finance Accounts and DGM)

The reasons for the variations could not be ascertained as the department was not conducting a reconciliation of its accounts with the figures available with the PAG (A&E)-I, Mumbai.

In the exit conference the Principal Secretary, IE&LD accepted the facts and stated that efforts will be made to carry out reconciliation of figures online so as to avoid difference between the figures of finance account and figures reported by the Department.

It is recommended that the Department may consider **reconciling the figures at regular interval of the time so that the variations are detected well in time and the accounts prepared or figures supplied by the Department present the true picture of the receipts of Government account.**

7.2.1.3 Arrears of revenue

As per information furnished by the DGM the arrears of revenue is shown in **Table 7.2.1.3 (a).**

Table 7.2.1.3 (a)

(₹ in lakh)				
Year	Opening balance of arrears		Closing balance of arrears	
	Major	Minor	Major	Minor
2009-10	-	-	120.19	8,352.00
2010-11	120.19	8,352.00	122.19	16,195.11
2011-12	122.19	16,195.11	250.24	16,459.42
2012-13	250.24	16,459.42	1,235.45	16,464.62
2013-14	1,235.45	16,464.62	1,232.34	15,850.23

It would be seen from above that the amount of arrears for major minerals have risen by 10.25 times and for minor minerals by 1.9 times during the last five years. The stages at which the arrears are pending are given in **Table 7.2.1.3 (b).**

Table 7.2.1.3 (b)

(₹ in lakh)				
Sr. No.	Stage at which the Arrears are pending	Arrears		Total Arrears
		Major	Minor	
1	Recovery under stay/pending with the court or the Government	0.37	4,381.53	4,381.90
2	Companies in liquidation	0.55	1.72	2.27
3	Where about of defaulters not known	0.66	2.34	3.00
4	Revenue Recovery Certificates (RRCs) sent to Collectors of other state for recovery	14.72	82.27	96.99
5	Intimations sent to Collectors within the State for issue of RRCs	1,003.93	254.26	1,258.19
6	Recoveries in progress including RRC cases	212.11	11,128.11	11,340.22
Total		1,232.34	15,850.23	17,082.57

It would be seen from above that the major portion of the minor mineral arrears was either pending in courts (27.64 per cent) or was pending with Collectors (72.33 per cent). While in the case of major minerals the major portion of the arrears (99.87 per cent) was pending with Collectors. There was enough scope of recovering the amounts pending collection with Collectors in the form of RRC's. For instance in Chandrapur, a lessee² defaulted in payment of royalty payable on limestone from 2009. The Department had not taken any action for recovery of amount till May 2013, in which RRC was issued for ₹ 9.87 crore. Thereafter, no further steps were taken for recovery of the amount.

In another case of Yavatmal district, recovery of ₹ 91.36 lakh was due from a sand ghat allottee³ for failure to comply the condition of allotment of sand ghat (2013-14) made during auction. Collector, Yavatmal issued notice (January 2015) after a gap of one year to the sand ghat allottee. Thereafter no further steps were taken for recovery of the amount.

The Government may consider **instructing the concerned Collectorates to make extra efforts for early disposal of at least those cases that are pending with them, as with the passage of time the chances of their collection became remote.**

The system and the compliance deficiencies in respect of major minerals are discussed in the following paragraphs.

² Murli Industries Ltd., Chandrapur

³ Shri Raju Sawalakhe, Sand Ghat: mouze Shirfuli and mouze Rahur, Taluka Mahagaon, Yavatmal (2013-14)

7.2.2 Major Minerals – Bauxite and Limestone

7.2.2.1 Disposal of applications for grant of licences and leases

Rule 63A of MC Rules, 1960 provides for disposal of the Prospecting Licence⁴ (PL) application and Mining Lease⁵ (ML) application within nine months and twelve months respectively.

Records in office of DGM, Nagpur and IE&LD, Mantralaya, Mumbai revealed that applications for granting PL and ML were invited by Government of Maharashtra (GoM) vide notifications published during 2008-09 to 2011-12. The Department had issued notification for grant of PL and ML up to 2011-12. The status of applications disposed off in respect of the two selected minerals Limestone and Bauxite are mentioned in **Table 7.2.2.1**.

Table 7.2.2.1

Period	Prospecting Licence		Mining Lease	
	Number of applications received	Number of applications disposed off	Number of applications received	Number of applications disposed off
2008-09	392	44	150	71
2009-10	108	0	71	0
2010-11	97	0	119	0
2011-12	312	0	0	0
Total	909	44	340	71

(Source: DGM, Nagpur)

The huge pendency in disposal of licences and leases indicates that the Department was not serious for grant of licences and leases hampering the process of establishment of new areas of mining and augmenting the state revenue. Exploring the mineral wealth was one of the objectives of the State Mineral Policy, 1999 and due to lack of action on the part of the Department the purpose of this objective was defeated.

In the exit conference, the Principal Secretary, IE&LD stated that the applications were kept pending intentionally in view of proposed changes in the MMDR Act, thereby preventing the possible loss of revenue if applications processed as per existing rules.

7.2.2.2 Renewal of mining leases

Rule 24A(6) of MC Rules, 1960 provides if an application for renewal of a mining lease is not disposed off by the State Government before the date of expiry of the lease, the period of that lease shall be deemed to have been extended by a further period till the State Government passes order thereon.

⁴ "Prospecting Licence" means a licence granted for the purpose of undertaking prospecting operations for the purpose of exploring, locating or proving mineral deposit.

⁵ "Mining Lease" means a lease granted for the purpose of undertaking mining operations, and includes a sub-lease granted for such purpose.

Our scrutiny revealed that lease period of seven leases out of 52 leases of limestone had expired during 2004-10. All the seven lessees had applied for renewal of mining leases between May 2004 and July 2010. However, none of the leases were renewed.

In the exit conference, the Principal Secretary, IE&LD stated that the applications were kept pending intentionally in view of proposed changes in the MMDR Act.

7.2.2.3 Approval of Mining Plan/Scheme of Mining

Under Rule 9 of MCD Rules mining plan is a prerequisite for a mining operation in the state. The mining plans indicate the essential details like the name of mine, owner, norms to be followed during the extraction of the ore, etc. These are approved by IBM. There were total 69 cases of Bauxite and Limestone leases in the three districts test checked. Audit test checked six cases from each district and found that in mining plans of all the 18 leases granted had been approved by the IBM.

Rule 12 of MCD Rules stipulates review of mining plans and submission of scheme of mining for the next five years to the regional controller of mines under the jurisdiction of IBM. Rule 13 of MCD Rules further envisaged that mining operation should be done in accordance with the approved mining plans and scheme of mining and in case violations are noticed then the authorized officer may order suspension of all or any of the mining activities.

(a) Production of minerals in excess of mining plan/without approval of scheme of mining

Mining Plan: We found that in one case of limestone and in one case of bauxite the mineral actually extracted by the lessees was more than that mentioned in the approved mining plan as mentioned in **Table 7.2.2.3 (a)**.

Table 7.2.2.3 (a)

Name of lessee	Year	Quantity as per the approved mining plan (MT)	Actual production (MT)	Excess production (MT)
Adegaon dolomite and limestone mine	2010-11	756	12,748	11,992
Meghare Bauxite mine	2009-10	36,000	59,200	23,200
	2010-11	48,000	56,000	8,000
	2013-14	76,329	79,200	2,871
Total		1,61,085	2,07,148	46,063

Mining Scheme: In three⁶ out of 18 leases test checked, scheme of mining were not found on records. The Department stated that in case of Moolvelas-Hervit-Kudgaon Bauxite Mine and Dandguri-Khujare Bauxite Mine extraction of Bauxite was done without approval of the scheme of mining while in case of Girgaon Bauxite Mine, ex-post facto sanction was obtained. The IBM

⁶ One lease-Girgaon Bauxite Mine and two lease Moolvelas-Hervit-Kudgaon Bauxite mine and Dandguri-Khujare Bauxite mine at DGM level.

stated that in these cases the lessees had not submitted the scheme of mining for the next five years as such the target production for the year 2012-13, 2013-14 could not be given to audit. The details are mentioned in **Table 7.2.2.3 (a)(i)**.

Table 7.2.2.3 (a)(i)

Name of Lessee	Year	Quantity extracted (MT)
Moolvelas-Hervit-Kudgaon Bauxite Mine	2013-14	41,500
Dandguri-Khujare Bauxite Mine	2012-14	99,000
Girgaon Bauxite Mine	2010-12	2,16,330
Total		3,56,830

Thus, the lessees had extracted 4.03 lakh MT mineral valued at ₹ 6.23 crore which could be recovered under Section 21(5) of MMDR Act which stipulates that recovery of the price of mineral along with royalty etc. from any person who raises the mineral without any lawful authority. This escaped the notice of the Department as well as the IBM with the result timely action to prevent excess production could not be taken.

In the exit conference, the Principal Secretary, IE&LD stated that the action for violation of norms would be taken.

(b) Variation in production of minerals as per Environmental Clearance Certificate (EC), Scheme of Mining and actual production

Notification issued under the Environment (Protection) Rules, 1986 by Government of India (GOI) dated 14th September 2006 envisaged requirement of prior EC from the Ministry of Environment and Forest (MoEF) in case of mining of minerals. The EC inter-alia indicates the quantity of the minerals to be extracted from a particular area.

We found that there was no coordination between the DGM, MoEF and IBM (GOI) to fix the ceiling limit of the extraction/production of the mineral to trace the excess production of the mineral. The quantity mentioned in EC was at variance with the quantity mentioned in the scheme of mining and the quantity actually extracted as mentioned in **Table 7.2.2.3 (b)**.

Table 7.2.2.3 (b)

Name of lessee	Year	(Quantity in MT)		
		Quantity approved in EC	Quantity actually produced	Quantity approved in scheme of mining
Moolvelas-Hervit-Kudgaon	2009-10	20,472	20,618	1,25,000
	2010-11	20,472	24,000	1,38,000
	2011-12	20,472	64,325	1,51,600
	2012-13	20,472	20,600	1,66,800
Kurvade-Maral Bauxite Mine	2009-10	12,000	37,500	76,000
	2010-11	12,000	1,11,000	78,000
	2011-12	12,000	1,33,000	82,000
	2012-13	12,000	89,800	83,600
	2013-14	12,000	12,450	89,586
Dandguri-Khujare Bauxite Mine	2009-10	18,000	18,500	1,41,000
	2010-11	18,000	48,000	1,95,000
	2011-12	18,000	1,24,300	2,00,000
Total		1,95,888	7,04,093	15,26,586

It would be seen from the above that the actual production was more by 259.44 per cent of EC and 53.88 per cent less than the scheme of mining. The reasons for variations were neither found on records nor given by Department.

IBM stated that EC did not fall under their purview and they were concerned with Mining Plan/Schemes only. Reply from DGM has not been received.

The above facts indicate that there was no sharing of information between the concerned departments to fix a uniform target of extraction of mineral in respect of a mine. The GoM may take up the matter with the GOI for fixation of a uniform target of extraction of the mineral in the benefit of the revenue and the environment.

7.2.2.4 Delay in cancellation of Environmental Clearance

Section 21(5) of the MMDR Act stipulates that recovery of the price of mineral along with royalty etc. from any person who raises the mineral without any lawful authority. As per Supreme Court order⁷ dated 4 August 2006, no mining activity can be allowed within a distance of one kilometer from any national park.

We noticed in Kolhapur district that EC was granted to two⁸ lessees by MoEF in December 2006 for extraction of bauxite ore. The lessees in their documents submitted for obtaining EC to MoEF had mentioned the distance between the national park and the leasing area as more than 10 Km. However,

⁷ Writ petition (civil) no. 202 of 1995

⁸ M/s Swati Minerals and M/s Prakash Anandrao Gaikwad

later MoEF found that the distance between Chandoli National Park boundary and mine lease area was between 800m and 1,600m only and accordingly ECs were cancelled on August 2012 and November 2013.

Though the mining operations were suspended, no action was taken for the mining activities performed/done on false documentations.

Bauxite ore of 26.97 lakh MT valued at ₹ 30.02 crore was extracted during the period of operation. This entire production should have been treated as illegal extraction and the cost of the mineral should have been recovered.

Besides responsibility needs to be fixed on the persons who had accepted the false documents causing damage to the environment.

In the exit conference, the Principal Secretary, IE&LD stated that action to suspend the lease as per rules has been taken.

He further stated that the said extraction does not fit into the definition of illegal mining hence cost of mineral cannot be recovered. Reply of the Department is not correct as the lessees had given false information and as such the mining activities made by them were not legal and should have been declared as illegal and penalty u/s 21 (5) of MMDR, that stipulates recovery of the price of the mineral extracted during illegal operation, should be levied.

A system needs to be framed by the Department to ensure that the particulars furnished in the application or otherwise for grant of lease or in the EC are correct.

7.2.2.5 Raising of mineral beyond the lease area

As per Rule 48(7) of Maharashtra Land Revenue Code, 1966 (MLR Code) any person without any lawful authority extracts, removes, collects, replaces, disposes of any mineral, the State Government shall recover the penalty not exceeding a sum determined at three times the market value of the minerals so extracted, removed, disposed off etc.

Scrutiny of Inspection Reports in DGM/Dy. Director Kolhapur revealed that in (March 2011/April 2014) two⁹ cases, 1.41 lakh MT of Bauxite had been excavated outside the lease area which was illegal. Of these two cases in one case¹⁰ show cause notice was issued to the lessee while in other case no action was found to have been taken. The lessees were liable to pay the penalty at ₹ 5.80¹¹ crore.

In the exit conference, the Principal Secretary, IE&LD stated that action would be taken to recover the amount.

7.2.2.6 Transfer of lease right without the previous approval of Government

As per Rule 37 of MC Rule 1960, the lessee shall not, without the previous consent in writing of the State Government/Central Government assign, sublet, mortgage, or in any other manner, transfer the mining lease, or any

⁹ Meghare Bauxite Mine, Srivardhan and Shekhadi Bauxite Mine

¹⁰ Meghare Bauxite Mine, Srivardhan

¹¹ $1,15,916.40 \times 115 \times 3 = 3,99,91,158$ & $25,147.12 \times 239 \times 3 = 1,80,30,485.04$

right, title or interest therein, or enter into or make any arrangement, contract or understating whereby the lessee will or may be directly or indirectly financed to a substantial extent by, or under which the lessee's operations or undertakings will or may be substantially controlled by any person or body of persons other than the lessee.

Scrutiny of records of lessees in DGM and DMO, Kolhapur district revealed that during November 1994 and February 2006, six lessees in three¹² districts have transferred the lease right to an agent through irrevocable Power of Attorney and Development Agreement (dated 10/11/1994, 21/09/2001, and 26/02/2006) to run and manage the mining business *etc.* There was nothing on record to indicate that the approval of Government was obtained.

The transfer of the lease right without the consent of Government was irregular and thus mining activities conducted by an agent of these lessees was unauthorized. The agent of the lessees extracted 32.97 lakh MT of mineral valued ₹ 60.83 crore without lawful authority which needs to be recovered.

After this was pointed out, DMO, Kolhapur stated (June 2015) that his office was not aware of transfer of lease rights. This indicates that the Department has to strengthen its internal controls to ensure non-reoccurrence of such lapses.

In the exit conference, the Principal Secretary, IE&LD accepted the facts and intimated that action would be taken in the matter.

7.2.2.7 Assessment and collection of Royalty and Rent

Every lessee is required to file a monthly and yearly return indicating its monthly/yearly production, clearance and royalty paid on mineral extracted under Rule 45 of MCD Rules.

We noticed that the Department merely collects the returns and had not made any effort to scrutinise any return submitted by the lessees. Thus, the purpose for the submission of the returns was defeated. There was no mechanism at the apex level to ensure the correctness of the figures furnished by the lessees. Audit scrutinised the annual returns and found short/non or delay in collection of royalty and rent as mentioned in following paragraphs.

(a) Short payment of royalty

The rate of royalty is calculated in accordance with a formula¹³ prescribed in Rule 64D(1)(i) & (iv) of the MC Rules, 1960. The rate of royalty depends on the contents on the aluminium metal in the ore, dollar rupee exchange rate, sale price of bauxite/aluminium *etc.*

¹² Kolhapur, Raigad and Yavatmal

¹³ As per Rule 64D(1)(i) of the Mineral Concession Rules, 1960

Royalty = Sale price of mineral published by IBM X Rate of royalty (in percentage) X Total quantity of mineral produced/dispatched.

As per Rule 64D(1)(iv) of the Mineral Concessions Rules, 1960

Royalty = (52.9/100) X Percentage of Al₂O₃ in the bauxite X Average monthly price of aluminium as published by the IBM X Rupee/dollar exchange rate (selling) X Rate of royalty (in percentage)

Scrutiny of the annual returns of the seven lessees revealed that the royalty of ₹ 6.54 crore was paid short as mentioned in **Table 7.2.2.7 (a)**.

Table 7.2.2.7 (a)

(in ₹)					
Sr. No.	Name of the lessee	Year of Annual Return	Royalty Payable	Royalty Paid	Royalty Short Paid
1	M/s Shivram Minerals (Burumbal, Taluka Shahuwadi)	2012-13	1,17,62,150	1,02,85,291	14,76,859
		2013-14	1,08,78,725	1,08,59,122	19,603
2	M/s Bharatesh Construction Company. (Girgaon/Yelwan Jugai-Shahuwadi)	2013-14	3,37,74,666	3,30,000	3,34,44,666
3	M/s Bharatesh Construction Company (Moolvelas-Harvit-Kudgaon, Shrivardhan)	2012-13	25,60,774	14,28,778	11,31,996
		2013-14	34,19,452	4,31,000	29,88,452
4	M/s Alatge Stone Crushing Industries (Danda - Bagmandala-Saigaon, Shrivardhan)	2012-13	64,34,497	30,00,000	34,34,497
		2013-14	52,91,251	15,00,000	37,91,251
5	Manohar V. Daryanani (Meghare Shrivardhan)	2013-14	62,68,246	35,00,000	27,68,246
6	M/s Ashapura Minechem Ltd (Rovale Bauxite Mines)	2013-14	3,04,28,394	2,15,00,000	89,28,394
7	M/s Ashapura Minechem Ltd (Umbarshet Bauxite Mines)	2013-14	2,39,63,904	1,65,50,000	74,13,904
Total			13,47,82,059	6,93,84,191	6,53,97,868

In the exit conference, the Principal Secretary, IE&LD accepted the fact of non-assessment of returns by DMO and stated that recovery of ₹ 32 lakh was made from two lessees and action in remaining cases would be taken.

The above short levy was only in respect of the returns for the periods made available to audit. The Department may consider examining all the returns and find the correctness of royalty paid. The Department may also develop a system for prompt verification of the returns submitted by the lessees.

(b) Non-payment of interest

In case of late payment of royalty, interest at the rate of 24 *per cent* is payable as per Rule 64A of MC Rule, 1960.

The Department had also not maintained the records properly to ensure timely payment of the royalty. In absence of the records the audit could not ascertain the timely payment of royalty in all cases except one in which all the documents were found. A perusal of the file revealed that the lessee¹⁴ had delayed the payment by 3 days to 113 days and he was liable to pay interest of ₹ 20.91 lakh for late payment of royalty aggregating to ₹ 14.38 crore.

¹⁴ M/s Bharatesh Construction Company, Kolhapur

It is recommended that the Department may consider maintaining the records and ensuring levy of interest wherever payment of royalty is delayed.

In the exit conference, Principal Secretary, IE&LD accepted the facts and intimated that notice for recovery of ₹ 20.90 lakh has been issued by DMO, Kolhapur.

(c) Non-recovery of Dead Rent and Surface Rent

As per the Section 9A (1) of the MMDR Act, every lessee of a mining lease has to pay every year, dead rent in advance for the whole year at the rates prescribed in Schedule-III. Rule 28(1) of the MC Rule, 1960 stipulate that if the mining operations are not commenced within one year from the date of execution of lease or is discontinued for a continuous period of one year after commencement of operation the GoM shall declare the mining leases as lapsed and communicate the same to the lessee. Further Rule 27(1) (d) of MC Ruls, 1960 stipulates that the lessee shall pay, for the surface area used by him for the purposes of mining operations, surface rent at such rate, not exceeding the land revenue.

(i) Dead Rent: We noticed that in Yavatmal and Kolhapur districts, DMO did not recover dead rent of ₹ 82.92 lakh from 26 leases which were non operative for the period ranging between one to 16 years. The lessees had remained un-operative for the period of one to 16 years even then the leases were not lapsed by the Government. After this was pointed out, the DGM intimated that reasons for not declaring the lapse of leases have been called from the DMOs. In Chandrapur, details of dead rent recoverable in 6 limestone mines which are non-operative were awaited.

In the exit conference, Principal Secretary, IE&LD stated that dead rent would be recovered.

(ii) Surface Rent: In 21 cases of Yavatmal district, surface rent of ₹ 2.19 crore under Rule 27(1)(d) of MC Rules 1960 was neither paid by the lessee nor was demanded by the DMO.

In the exit conference, Principal Secretary, IE&LD stated to recover the amount as per rule.

7.2.3 Minor Mineral

Minor minerals comprise of sand, stones, murum, ordinary clay etc. Of these minerals the identification of sand ghats has been done and Sand Policy of 2010 has been replaced by Sand Policy of 2013. There is no policy for extraction of other minor minerals like stone, murum etc. Prior to 2013 the mining operations of minor mineral could be done without the mining plan, while environment clearance was needed for extraction of mineral from 2012.

7.2.3.1 Management of resources minor mineral

(a) Absence of centralized data for minor mineral except sand and policy thereof.

The GoM does not have a centralized data about quantum of minor mineral (other than sand) and location thereof as a result the management of the minor

mineral could not be effectively monitored as mentioned in a few cases detailed below.

In the exit conference, Principal Secretary, R&FD (November 2015) stated that a database for all the minor minerals will be created/established properly for which directions will be issued to DGM.

(i) Precious/Semi-precious stones

Our internet search (www.mindat.org, www.iRocks.com) indicated presence of precious/semiprecious¹⁵ stone like Cavansite, Pentagonite in Wagholi situated in Tahsil Haveli, District Pune. The Department intimated that it was not aware of the presence of this precious/semi-precious stone. This indicated that there is a lack of prospecting of minor mineral.

In the exit conference, Principal Secretary, R&FD (November 2015) stated that the matter regarding the extraction of the precious/semi-precious stone would be examined and investigated by DGM.

(ii) Stones excavated during hill cutting

No data in respect of the mineral excavated from hill cutting was maintained by the Department. The State Environment Department has also found that there is no restriction on hill cutting which needs to be decided. Districts have no definite mapping of stone quarries, reserves of minor mineral, systematic plan for judicious use of mineral resources.

In the exit conference, the Principal Secretary, R&FD stated that the Department would identify stone quarries at district level. He further stated that though there is no policy on mining in hilly areas, suitable policy would be framed and rules would be prescribed for defining and exploring hills for quarrying purposes.

(iii) Measurement of quarry lease and quarrying permit

Quarterly returns of mineral production and payment of royalty thereof are submitted to the DMO. However, there is no system in the DMO offices to check the quantity actually extracted from the quarry vis-a-vis shown in the returns. Instruments like Electronic Total Stations (ETS) required for measuring the mineral excavated from the pit were not available with the Department. No norms were found on records to indicate conducting of regular inspections of quarries by the Department.

The inspection of the quarries for detecting illegal extraction was done in accordance with the High Court directions (September 2014). Based on these direction the Department has levied ₹ 36.28 crore of royalty including penalty in 751 cases.

Thus, it would be in the interest of revenue if a policy for minor mineral is framed which inter-alia may include regular inspection of quarry, periodical measurement of quarry area and assessment of royalty.

In the exit conference, the Principal Secretary, R&FD stated that the provision for annual measurements through ETS would be incorporated in the rules.

¹⁵ Cost of stone viz. Cavansite of miniature 5.5 x 3.6 x 2 cm at \$ 2,750 i.e. ₹ 1,65,000 (approx) as per site www.iRocks.com

7.2.3.2 Short/non-recovery of royalty

The R&FD revised (February 2010) rates of royalty for ordinary earth used for filling or leveling purpose in construction of embankment, roads, railway and building the rate was enhanced to ₹ 200 per brass from ₹ 100 per brass.

- In SDO, Alibag of Raigad district, it was noticed that the Executive Engineer, (EE) Irrigation Division, Kolad deducted (June 2010) royalty at pre-revised rate for 3.44 lakh brass amounting to ₹ 3.44 crore as against ₹ 6.88 crore from the contractor M/s. F.A. Enterprises, Mumbai towards the work of Balganga River Medium Project. This has resulted in short recovery of royalty of ₹ 3.44 crore. Moreover, royalty of ₹ one crore was only credited to Government and amount of ₹ 5.88 crore is outstanding.
- In Niphad Tahsil of Nashik district, royalty for the period 2010-11 from 22 works of Gaon Talav, was collected of ₹ 41.26 lakh at pre-revised rate and was lying with Maharashtra Water Conservation Corporation (MWCC), Aurangabad. The royalty recoverable as per revised rate was ₹ 82.52 lakh. The revenue authority may pursue the recovery from MWCC at correct rate and its deposit in treasury.
- In three Tahsils¹⁶, royalty of ₹ 1.45 crore for the year 2011-12 to 2013-14 though deducted by executing agencies¹⁷ from contractors, however, the same was neither credited to Government nor demanded by the revenue authority responsible for collection.

In the exit conference, the Principal Secretary, R&FD agreed to issue Government Resolution to address the issue.

7.2.3.3 Short/non-recovery of penalty

As per rule 48(7) of the MLR Code penalty not exceeding three times the market value of the mineral illegally removed or disposed off is required to be levied.

We noticed in Kolhapur and Thane districts, that Department during inspection had detected 46 cases of illegal extraction of 1.16 lakh brass clay. The penalty was to be recovered at the rate of mineral mentioned in District Scheduled of Rate. However Audit found that:-

- In Thane, in five cases neither royalty of ₹ 2.08 crore nor penalty of ₹ 6.35 crore was recovered while
- In Kolhapur, though royalty was recovered penalty amounting to ₹ 58.59 lakh was leviable but only ₹ 13.99 lakh were levied and recovered resulting in short realisation of penalty of ₹ 44.60 lakh.

In the exit conference, the Principal Secretary, R&FD stated that all the cases would be examined. In respect of levy of penalty at market rate it was stated that the Government would examine the legal feasibility of issuing an advisory for arriving market rate of minerals.

¹⁶ Tahsildar, Daund, Karjat and Vasai

¹⁷ Executive Engineer (EE), PWD, Pune, EE, PWD Kolad Raigad and EE, Thane

7.2.3.4 Lease rent and Compensation or Occupancy price

R&FD, GR (July 1999/May 2006) provides levy of lease rent on allotment of government land at Prime Lending Rate (PLR) of State Bank of India (SBI) on market value of the land worked out as per Annual Statement of Rates (ASR) as on the date of order. The PLR (SBI) for the year 2014 was 10 *per cent*.

We noticed that Government land were allotted for 28 leases of minor mineral and 13 leases of major mineral in four¹⁸ of the nine districts test checked. Lease rent of ₹ 12.90 crore for the calendar year 2014 alone was not levied by the concerned Collectors on Government land leased out for mining activities.

In the exit conference, the Principal Secretary, R&FD stated that applicability of GR (July 1999) for levy of lease rent on the Government land allotted for mining activities would be examined.

7.2.3.5 Absence of data at apex level

The total number of sand ghats were not made readily available with R&FD. It was intimated that the information will be called from DGM and will produce to audit.

(a) Identification and auction of sand ghats

The position regarding identification and auction of sand ghats in respect of nine districts¹⁹ collected by audit is mentioned in the **Table 7.2.3.5 (a)**.

Table 7.2.3.5 (a)

Year	Total no. of sand ghat identified	Number of sand ghat auctioned	Number of sand ghat not disposed off
2010-11	797	485	312
2011-12	1,296	570	726
2012-13	503	251	252
2013-14	500	192	308
Total	3,096	1,498	1,598

(Source: Information furnished by DMO)

Thus, it would be seen from the above that 3,096 sand ghats were identified during 2010-14 which was a commendable effort by the Department. The decrease in number of sand ghats during 2012-13 and 2013-14 was due to the consolidation of all adjacent ghats falling within a radius of one kilometer into one sand ghat.

(b) Non-auction of sand ghats

It can be seen from the **Table 7.2.3.5 (a)** that 52 *per cent* of the sand ghats remained un-disposed off. The upset price fixed in respect of these ghats was ₹ 994.90 crore. Non-auction of ghats at such a large scale affects the state revenue adversely. The Department may consider reviewing the system of

¹⁸ Raigad, Chandrapur, Yavatmal and Nagpur

¹⁹ Chandrapur, Kolhapur, Nagpur, Nasik, Pune, Raigad, Satara, Thane and Yavatmal

auction of ghats in such a manner that auction of maximum number of ghats is possible.

In addition to the above, we noticed a number of sand ghats that were identified for auction but could not be put to auction as mentioned in the following paragraphs.

(c) Environmental Clearances for auction

As per the GR dated 12 March 2013 issued for disposal of sand ghats the process of survey and identification should be completed by 15th October. Thereafter, EC is required to be obtained for which no time limit has been provided under the policy.

- In Kolhapur and Nagpur districts, 122 sand ghats²⁰ were not put to auction during 2012-14 as EC was not received in time. This was due to non-furnishing essential details like depth of the sand and water, approval for use of suction pump, area and distance between the block/cluster and discrepancies in the power point presentation, survey report to Environment Department by the Collectors. In addition to this in 16 cases of Nagpur, Environment Department further delayed the process by three months. As a result the revenue of ₹ 24.88 crore²¹ from 122 sand ghats could not be tapped.
- Environment Impact Assessment (EIA) is required to be conducted by Environment Department of the State Government in respect of dredging²² and a report in this regard is required to be submitted to the Collector for auction of the sand ghats. In Thane, out of 11 sand ghats, nine sand ghats were marked (February 2013) for extraction of sand by dredging. The work for EIA was entrusted to a private firm “Fine Envirotech Engineers (Accredited Environment Consultant in Dredging)” in April 2013, however, the firm has not submitted the report till date (June 2015) and ghats could not be auctioned. The potential revenue involved in these sand ghats amounting to ₹ 72.25 crore for 2012-14 could not be tapped.

In the exit conference, the Principal Secretary, R&FD stated that the cases will be examined. It was also stated that in view of judgment passed by the National Green Tribunal in June 2014, the issue relating to dredging and environment was entrusted to Maharashtra Maritime Board and Collector will supervise the process of auction of sand. In case of Kolhapur and Nagpur, it was stated that due to imposing the condition of obtaining EC before auction of sand ghats for the first time in the state these two districts could not comply the same in time, however in subsequent years the EC's were obtained in time.

(d) Lack of infrastructure

As per GR of R&FD (October 2010) for “Sand Policy,” Collector should ensure the availability of approach road to the sand ghat while identifying it.

²⁰ Kolhapur: 106 sand ghats and Nagpur: 16 sand ghats

²¹ Kolhapur: ₹ 15.75 crore (upset price of 106 ghats) and Nagpur: ₹ 9.13 crore (upset price of 16 sand ghats)

²² Dredging means a mechanical extraction of sand or sediments for clearance of navigation channels

- Two sand ghats²³ in Nagpur were auctioned for ₹ 1.76 crore during 2012-2013. However, the lessee intimated that the sand could not be extracted as original road proposed for transportation of sand was passing through reserved forest, which was banned. Though, as per records, alternate road was offered by a private person, it was not made available to lessee for extraction of sand. As a result, the Government could not earn the revenue of ₹ 1.76 crore towards the royalty.

In the exit conference, the Principal Secretary, R&FD stated that the matter will be taken up with the Collector for appropriate action.

- In Nasik five sand ghats auctioned in 2011-12 for ₹ 96.79 lakh, were cancelled due to non-depositing of bid amount by bidders. The sand ghats were not re-auctioned. As a result the revenue of ₹ 76.80 lakh²⁴ could not be generated after adjusting ₹ 21.92 lakh paid by the licensee in advance.

In reply DMO, Nasik, stated (May 2015) that the bidders were black listed. However, no reasons for sand ghats not re-auctioned were furnished.

In the exit conference, the Principal Secretary, R&FD agreed to examine the cases and to take appropriate action as required.

7.2.3.6 Absence of a system for ascertaining the actual quantity of the sand extracted after allotment of sand ghats

As per the GR for disposal of sand, the Ground Water Survey and Development Agency (GSDA), DMO and concerned Tahsildar are required to conduct a joint survey to ascertain the quantity of sand and its effects on water level in the vicinity of the ghats. Thus, the policy envisaged that quantity of sand available at the time of allotment but it does not envisage any check on the extraction of the sand after its allotment. This lacuna in the policy had led to a number of illegal extractions mentioned in the following paragraphs.

- In 37 cases of three²⁵ districts, cases of excess transportation of sand by the allottee were reported by the RTO between December 2011 and July 2014, those were penalized for carrying load in trucks in excess of the Transit Pass issued to them by the Collector. Thus, the possibility of excess excavation than the permissible limit in the sand ghats allotted to them or by encroaching other sand ghats could not be ruled out.
- In two cases in Nagpur district, Tahsildar, Saoner, through joint inspections (January 2012) pointed out the excess quantity extracted by the allottees and penalized for violations and issued notice for recovery.

Thus, the above cases indicates that there is a need of periodical measurements of sand ghats to avoid illegal extraction of sand and the Government may consider framing a scientific system for periodic measurement of sand ghat.

In the exit conference, the Principal Secretary, R&FD stated that the procedure for arriving at quantity of sand in the ghat at the beginning is not scientific

²³ Saholi A1 & A2, Taluka –Parseoni, Nagpur

²⁴ [(₹ 96.79 lakh – ₹ 21.92 lakh amount deposited by bidder) + Environment Cess : ₹ 1.93 lakh]

²⁵ Chandrapur, Nagpur and Yavatmal

which could not take care of deposition of sand in contours hence Government is proposing measurement of sand ghats at handing over stage through scientific methods and also proposing for installation of video surveillance system at sand ghats which will address the issue of excess/illegal extraction of sand.

7.2.3.7 Lack of information sharing between Revenue Department, Regional Transport Officer (RTO) and Police - cases of illegal transportation of minerals

As per the instructions given by R&FD (June 2002), FIR may be lodged against person indulged in illegal activities, the licences of the truck driver may be cancelled and the vehicles may be suspended for six months for transportation purposes and also the penalty shall be levied at 3 times of the market value or ₹ 3,000 per brass for such illegal mineral transported. R&FD instructed (February 2011) for strict action against illegal extraction and transportation of sand and cross reporting of such instances among RTO, Police and Revenue Department. Clause C 28 of the Sand Policy issued in October 2010 and March 2013 stipulates that in case of vehicle carrying mineral in excess of permitted quantity, the entire quantity shall be treated as illegal.

In nine districts²⁶ information of overloaded vehicles transporting minerals was collected from the concerned RTOs wherever it was available/complete. It was cross-verified with Collector offices and cases of illegal extraction/transportation referred by RTOs/Police to the Collectors were scrutinised. We noticed that there was either lack of co-ordination or absence of co-ordination between the three departments in checking/preventing the illegal transportation of minor minerals. This hampered the collection of revenue in the State, a few cases are mentioned in the following paragraphs.

- **Practice of referring the cases of overloading to the Collectors:-** We found that 157 cases booked by RTO in seven²⁷ districts were not referred to the concerned Collectors at all. The transportation of entire quantity of 758.50 brass of mineral in above cases was to be declared as illegal mining in accordance with paragraph No. C 28 of the Sand Policy issued in October 2010 and March 2013. Since the cases were not referred to the Collector, he could not take any action for levy of royalty and penalty. Thus, lack of coordination between RTO and Collector resulted in non levy of penalty amounting to ₹ 24.27 lakh.
- **Practice of referring the cases of excess transportation to the RTO:-** In Chandrapur, cases of illegal transportation of mineral carrying in 10 trucks were penalized by revenue authority but were not referred to RTO for initiating action for overloading if any.

In Yavatmal district the practice of referring of overloading cases to the Collector is being followed and the penalty of overloaded vehicles is levied accordingly. No case referred by the RTO to Collector, Raigad, was found on record. However, RTO, Raigad did not furnish any information

²⁶ Chandrapur, Kolhapur, Nagpur, Nasik, Pune, Raigad, Satara, Thane and Yavatmal

²⁷ Chandrapur, Kolhapur, Nagpur, Nasik, Pune, Satara and Thane

regarding the overloading of vehicles in the mining activities as such the leviable penalty could not be ascertained.

- **Non-furnishing of information by RTO/Police:-** Four revenue authorities²⁸ had detected cases carrying minor minerals in 114 trucks which were either without transit pass or in excess of transit pass. The trucks, however, managed to escape but registration numbers of these trucks were recorded and were sent to concern RTOs to ascertain their name and address of the vehicles carrying the sand. But the RTO did not furnish the information to the respective Collectorate. It was further noticed that the Collector after referring the cases to the RTOs had not pursued the matter for obtaining the same. In one case in Nasik, Police Department referred (January 2011) the case of overloading of sand by 4.41 brass to the RTO for levying penalty under MVT Act. The RTO Nasik requested (January 2011) to the Police Department to coordinate with revenue authorities for recovery of royalty and penalty. The RTO and police did not refer the matter to revenue authorities hence no action has been taken by the Collectorate.
- A social activist had furnished a list of 1,033 trucks carrying sand illegally extracted to the Collector, Thane. The list was forwarded to RTO Thane, New Mumbai and Vasai in March 2013 for ascertaining the name and address of the truck owners. Of these, RTO, Thane could furnish the details of 318 truck owners only. The Collector, Thane, issued show cause notices to these truck owners in June 2013. Further action taken had not been intimated. However, remaining two RTOs did not furnish the required information nor was it pursued by the Collector.
- The Police Department had intimated (August 2013) illegal transportation of 24 trucks of sand to the Tahsildar, Haveli, Pune. There after no action was taken by Tahsildar. After being pointed out (July 2015) the Tahsildar replied the cases will be referred to RTOs and name and address of the vehicles will be obtained. There after action against the illegal transportation will be taken.
- **Illegal transportation of sand from other district/state:-** In two²⁹ test checked districts, information collected from RTO revealed that 24 cases of illegal transportation of mineral booked by RTO pertained to other districts/state³⁰. These cases³¹ were not referred to the concerned DMOs of the districts/state that had issued TPs for taking action against the sand ghat allottees to whom the TPs were issued.
- In Alibag, Tahsildar seized (January 2013) 288.44 brass of sand on account of illegal extraction at the site. The Department did not take any action to find out the person involved in illegal extraction of sand and no FIR was filed.

²⁸ Thane, Nasik, Pune and Chandrapur

²⁹ Nagpur and Yavatmal

³⁰ Amravati, Bhandara, Chandrapur, Nanded, Wardha Districts of Maharashtra and Madhya Pradesh

³¹ 16 cases of DMO, Nagpur and 8 cases of DMO, Yavatmal

The above fact indicates that there is a need for co-ordination between the revenue authorities, RTOs and Police Department to prevent illegal extraction and transportation of sand and other minerals. The Department may consider taking the matter with other departments and for evolving a system of coordination for them.

In the exit conference, the Principal Secretary, R&FD stated that Government Resolution is being issued in which issues raised regarding need of co-ordination with the revenue authorities, RTO and Police would be incorporated.

7.2.3.8 Refund of auction amount of sand ghat

As per GR of R&FD (March 2003) "Sand Policy" proportionate refund³² of sand auction amount is admissible for the period of cancellation or ban on mining in sand ghat.

In one sand ghat³³ mining operations were suspended for 36 days from 23.09.2010 to 28.10.2010 on the orders of High Court and thereafter the mining operations were resumed. The Department incorrectly worked out the amount of refund as ₹ 46.50 lakh and allowed the same. The refund for these non-working days amounted to ₹ 11.35³⁴ lakh only admissible, thus, an amount of ₹ 35.15 lakh was incorrectly refunded.

In the exit conference, Principal Secretary, R&FD stated that the matter would be examined and appropriate action would be taken as required under Rules.

7.2.3.9 Non-payment of stamp duty on instruments executed for extraction of minerals

Article 36 of the Maharashtra Stamp Act, 1958 provides that where a lease purports to be for a period not exceeding five years, duty is leviable at the rates of three *per cent* of the ten *per cent* of market value. Bid value of the lease is taken as market value for the purpose of levying stamp duty.

- In six³⁵ districts, records related to auction of sand ghats for the period 2012-13 and 2013-14 revealed that 448 sand ghats were leased for bid amount of ₹ 106.13 crore on which stamp duty of ₹ 31.84 lakh was payable. However, the same was neither levied nor paid.
- Similarly, in two³⁶ districts, in case of 13 leases of minor mineral, stamp duty of ₹ 2.50 lakh and registration fees of ₹ 0.83 lakh was not paid on market value of ₹ 8.32 crore in respect of lease deed executed.
- In Nagpur, in case of 14 leases of minor minerals, stamp duty of ₹ 40.18 lakh and registration fees of ₹ 5.27 lakh was short paid on market value of ₹ 1,361.75 lakh in respect of lease deed executed.

³² (Auction Amount/Period allotted for sand extraction) x Number of days for which mining was banned

³³ Sand ghat at *mouze* Itan, Taluka Mohadi, District Bhandara in 2010-11

³⁴ 31,530 x 36 days (23-9-2010 to 28-10-2010)

³⁵ Chandrapur, Kolhapur, Nasik, Pune, Satara and Yavatmal.

³⁶ Chandrapur and Yavatmal

In the exit conference, the Principal Secretary, R&FD stated that instructions will be issued for levy of stamp duty on the instrument executed for extraction of sand.

7.2.3.10 Environmental Study

(a) Permission for extraction of sand without EIA study

EIA is a process, used to identify the environmental, social and economic impacts of a project prior to decision-making. It aims at predicting environmental impacts at an early stage of project planning and design, find ways and means to reduce adverse impacts, shape projects to suit the local environment and present the predictions and options to decision makers. EIA systematically examines both beneficial and adverse consequences of the proposed project and ensures that these impacts are taken into account during the project design. By considering environmental effects and mitigation early in the project planning cycle, there are many benefits, such as protection of the environment, optimum utilization of resources and saving overall time and cost of the project. Coastal Regulation Zone (CRZ) Notification (January 2011) issued by MoEF prohibited the activity of land reclamation, bunding or disturbing the natural course of sea water in CRZ except maintenance or clearing of water ways, channels and ports based on EIA studies.

In Thane district, permits were granted during 2011-12 to Mahalaxmi Industrial Manufacturer Co-operative Society for extraction of sand or sand mix clay of 3.48 lakh brass on payment of royalty ₹ 20.56 crore by using suction pump by mechanical method without EIA study. The environmental impact of such huge extraction i.e. 3.48 lakh brass of sand, thus, was not assessed before granting permissions which was in violation of CRZ notification.

In the exit conference, the Principal Secretary, R&FD stated that the case would be examined and further stated that Government has framed a policy (May 2015) wherein the issues including the environment have been taken into consideration.

(b) Grant of temporary permit without District Mining Plan (DMP)

The short term quarry permit was to be granted in accordance with the DMP. In four districts³⁷ 126 temporary permits were granted without DMP for extraction of 7.29 lakh brass of minor mineral between November 2013 and January 2015 which was incorrect. The Collectors of Chandrapur and Raigad did not furnish information regarding preparation of DMP and issue of temporary permits accordingly.

In the exit conference, Principal Secretary, R&FD stated that the matter regarding the preparation of DMP would be examined.

(c) Short recovery of Environmental Cess

GR dated 25.10.2010 for disposal of sand read with R&FD letter dated 14.1.2011 stipulates that Environmental Cess at two *per cent* of auction amount shall be collected from successful bidder of the sand ghat.

³⁷ Nagpur, Pune, Satara and Thane

In R&FD (May 2013) it was noticed that an amount of ₹ 390.65 crore was realised during the year 2011-13 from auction of sand ghats on which, environment cess of ₹ 7.81 crore was recoverable against which ₹ 6.02 crore was only recovered which resulted in short recovery of ₹ 1.79 crore. One of the reasons for short recovery was noticed in Pune district that cess was levied on the quantum of sand in the ghat calculated at royalty rate of ₹ 200 per brass and not on the auction amount of sand ghat.

In the exit conference, the Principal Secretary, R&FD agreed to examine the matter and take appropriate action as per law.

7.2.3.11 Non-recovery of Surface Rent

As per Section 18 (iii) of Maharashtra Minor Mineral Extraction Rule 1955, the lessee shall also pay, for the surface area used by him for the purpose of the quarry/mining, surface rent at such rate, not exceeding the land revenue and cess assessable on the land.

- In Pune district, surface rent ₹ 78.27 lakh was not recovered from 66 lessees for the period from August 2009 to July 2014. The DMO did not raise any demand.
- In Thane district, the City and Industrial Development Corporation (CIDCO) intimated (May 2015) to Additional Collector, Thane, that it has recovered surface rent and environment cess for the period from October 2006 to September 2016 from 86 quarry lease holders functioning on the land with CIDCO. Neither CIDCO intimated the amount and deposited in treasury nor did the Collector demand the same.

In the exit conference, the Principal Secretary, R&FD stated that cases will be examined.

7.2.4 Conclusions and Recommendations

The Performance Audit on systems and controls in collection of mineral receipts revealed a number of system and compliance deficiencies.

The lessees had extracted mineral either in excess of the Mining Plan or without the approval of Mining scheme, there was no coordination between the DGM, MoEF and IBM (GOI) to have a common ceiling for extraction/production of the mineral. The quantity mentioned in EC was at variance with the quantity mentioned in the scheme of mining and the quantity actually extracted by the lessees.

- **The Government may devise a system of co-ordination between the concerned departments responsible for fixing the ceiling limit of the mineral and ensure that a uniform target is fixed and is being monitored in the extraction of minerals in accordance with the approved mining plan or scheme.**

The Government did not maintain the databank of the quantum of minor mineral and location thereof. There was no system of periodical measurement of quarries and sand ghats allotted, consequently the quantum of mineral extracted and royalty paid thereof could not be ascertained.

- **The Government may prepare a database/databank indicating the areas of minor mineral and the quantum of minor mineral available thereof and may devise a system for periodic measurement of quarries and sand ghats after its allotment.**

There was no information sharing between RTO, Police and Revenue Department to check and prevent the illegal transportation of mineral.

- **The Government may devise suitable mechanism for information sharing between RTO, Police and Revenue Department for checking illegal transportation of minerals.**



(MEENAKSHI MISHRA)
Principal Accountant General (Audit)-I,
Maharashtra

Mumbai
The 13 March, 2016

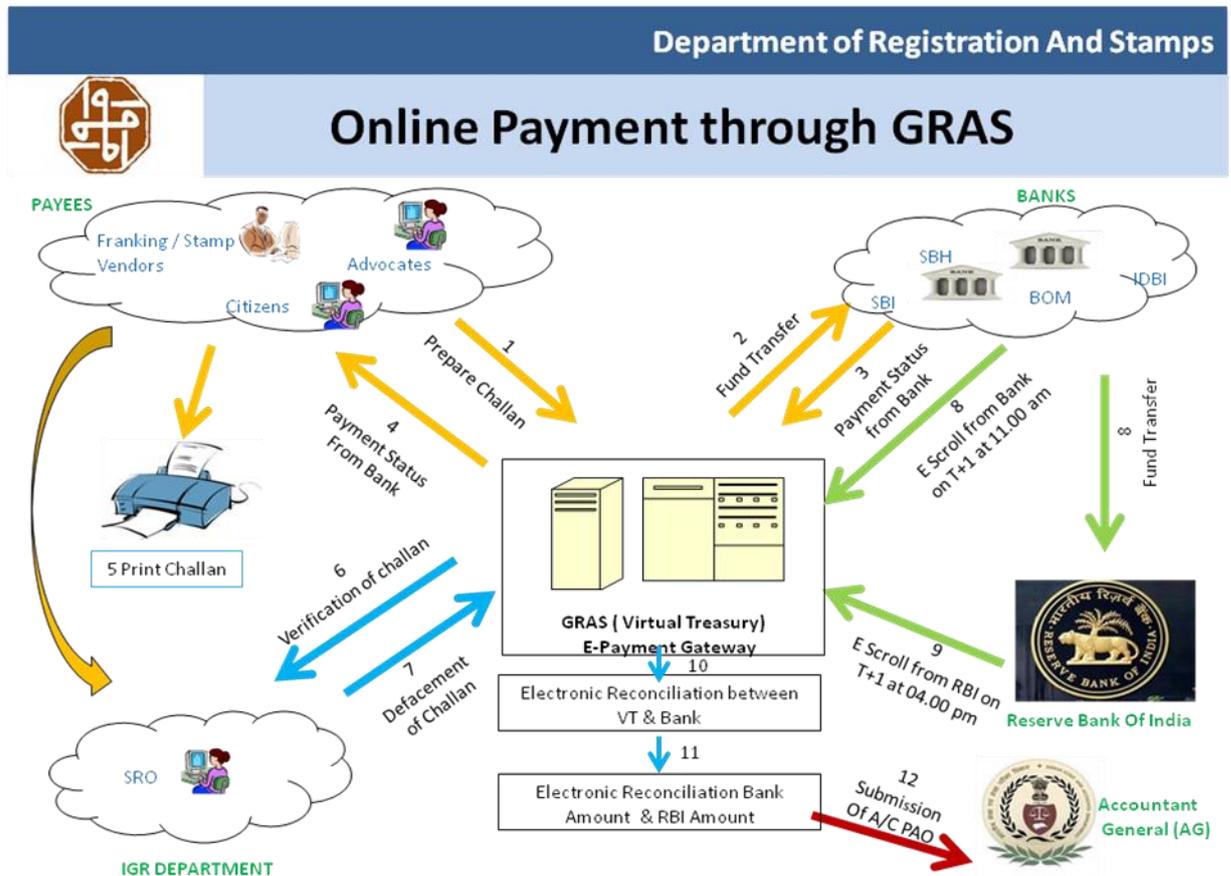
Countersigned



(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
The 14 March, 2016

Appendix-I
Process of e-payment (Ref: Para 3.4.2.4)



1. Preparation of challan by citizen, GRN generated.
2. With reference to GRN, fund transferred through authorised bank.
3. Payment status confirmed by bank, CIN generated to GRAS.
4. Payment status confirmed to citizen, CIN received by citizen.
5. Print challan having both CIN and GRN. This printed challan may be presented at SRO as proof of duty paid.
6. During Registration of document challan verified by SR.
7. After verification SR deface the challan.
8. E-scroll received by GRAS from bank at 11 AM of the next day of transaction and fund transferred to RBI.
9. E-scroll received by GRAS from RBI at 4 PM of the next day of transaction.
10. Electronic reconciliation between GRAS and authorised banks.
11. Electronic reconciliation between Bank amount and RBI amount.
12. Submission of accounts to PAO.