

Chapter-II

Revenue Sector

CHAPTER-II

Revenue Sector

2.1 Introduction

Part-I

2.1.1 Trend of revenue receipts

Tax and non-tax revenue raised by the Government of Uttarakhand during the year 2017-18, the State's share of net proceeds of divisible Union taxes and duties and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-2.1.1** below:

Table-2.1.1: Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Revenue raised by the State Government					
	• Tax revenue	7,355.34	8,338.47	9,377.79	10,897.31	10,164.93 ¹
	• Non-tax revenue	1,316.54	1,110.44	1,219.66	1,345.82	1,769.53
	Total	8,671.88	9,448.91	10,597.45	12,243.13	11,934.46
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ²	3,573.38	3,792.30	5,333.19	6,411.57	7,084.91 ³
	• Grants-in-aid	5,075.27	7,005.34	5,303.79	6,234.27	8,085.20 ⁴
	Total	8,648.65	10,797.64	10,636.98	12,645.84	15,170.11
3.	Total revenue receipts of the State Government (1 and 2)	17,320.53	20,246.55	21,234.43	24,888.97	27,104.57
	Percentage of 1 to 3	50	47	50	49	44

Source: Finance Accounts.

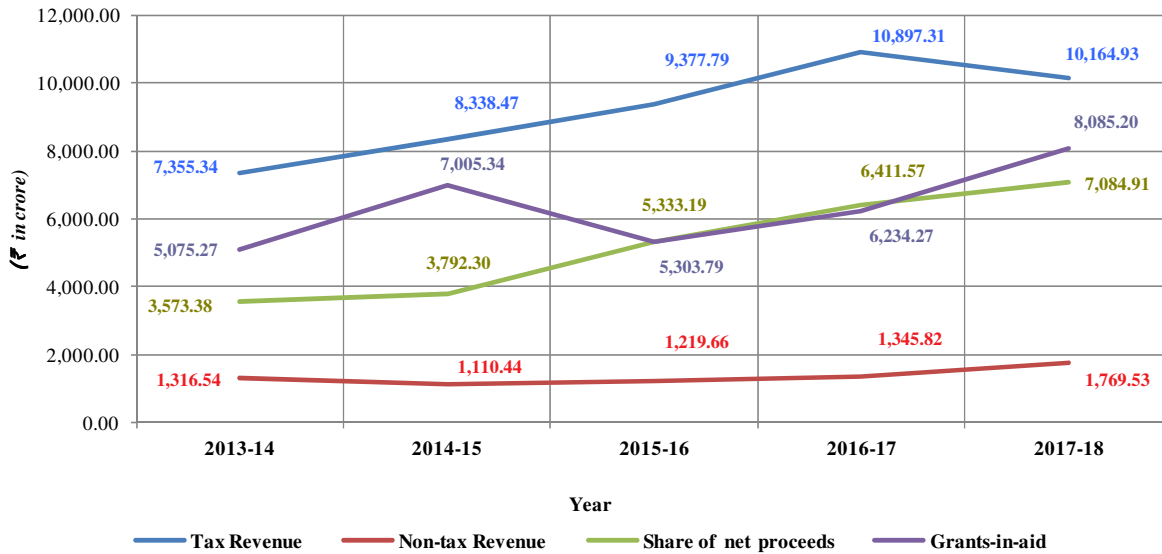
¹ This includes the amount of ₹ 1,971.82 crore of State Goods and Services Tax (SGST).

² Note: For details, please see Statement No.14: Detailed accounts of revenue by Minor Heads in the Finance Accounts (Vol-II) of Government of Uttarakhand. Figures under the "Share of net proceeds assigned to States" under the Major Heads-0020-Corporation Tax, 0021-Taxes on Income and Expenditure, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties and 0044-Service Taxes booked in the Finance Accounts under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the 'Share of net proceeds of divisible Union taxes and duties' in the above table.

³ This includes the amount of ₹ 100.52 crore of Central/Union Goods and Services Tax (CGST) and amount of ₹ 715.36 crore of Integrated Goods and Services Tax (IGST).

⁴ This includes the amount of ₹ 1,283 crore of compensation for loss of revenue arising out of implementation of Goods and Services Tax (GST).

Chart-2.1.1: Trend of Revenue Receipts



During the year 2017-18, the revenue raised by the State Government (₹ 11,934.46 crore) was 44 per cent of the total revenue receipts. The balance 56 per cent (₹ 15,170.11 crore) of the receipts was received from the Government of India as share of net proceeds of divisible Union taxes and duties and Grants-in-aid.

2.1.2 The details of tax revenue raised during the period 2013-14 to 2017-18 are given in Table-2.1.2 below:

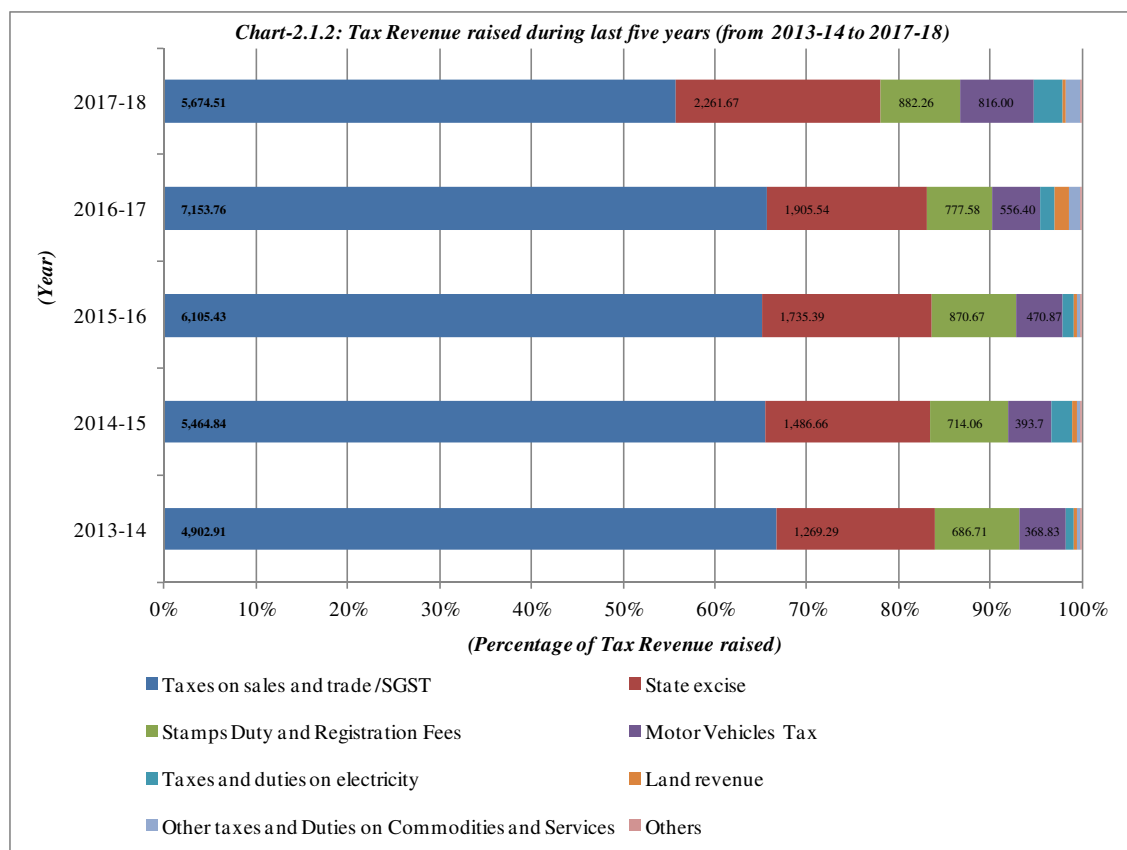
Table-2.1.2: Details of Tax Revenue raised

Sl. No.	Head of revenue	(₹ in crore)					Percentage of increase (+) or decrease (-) in actual of 2017-18 over actual of 2016-17
		2013-14 Actual (percentage)	2014-15 Actual (percentage)	2015-16 Actual (percentage)	2016-17 Actual (percentage)	2017-18 Actual (percentage)	
1.	Taxes on sales and trade /State Goods and Services Tax ⁵	4,902.91 (66.66)	5,464.84 (65.54)	6,105.43 (65.11)	7,153.76 (65.65)	5,674.51 ⁶ (55.82)	(-) 20.68
2.	State excise	1,269.29 (17.26)	1,486.66 (17.83)	1,735.39 (18.51)	1,905.54 (17.49)	2,261.67 (22.25)	(+) 18.69
3.	Stamps Duty and Registration Fees	686.71 (9.34)	714.06 (8.56)	870.67 (9.28)	777.58 (7.13)	882.26 (8.68)	(+) 13.46
4.	Motor Vehicles Tax	368.83 (5.01)	393.70 (4.72)	470.87 (5.02)	556.40 (5.11)	816.00 (8.03)	(+) 46.66
5.	Taxes and duties on electricity	64.66 (0.88)	192.65 (2.31)	114.76 (1.22)	188.56 (1.73)	323.62 (3.18)	(+) 71.63
6.	Land revenue	21.65 (0.29)	39.26 (0.47)	27.88 (0.30)	159.51 (1.46)	24.09 (0.24)	(-) 84.89
7.	Other taxes and Duties on Commodities and Services	23.47 (0.32)	25.26 (0.30)	28.37 (0.30)	126.53 (1.16)	163.71 (1.61)	(+) 29.38
8.	Others	17.82 (0.24)	22.04 (0.27)	24.42 (0.26)	29.43 (0.27)	19.07 (0.19)	(-) 35.20
Total		7,355.34	8,338.47	9,377.79	10,897.31	10,164.93	(-) 6.72

Source: Finance Account.

⁵ GST came into the effect from 01 July 2017 through implementation of one hundred and first amendment of constitution of India by the Government. The tax replaced existing multiple cascading taxes levied by central and state Government.

⁶ GST + Taxes on sales and trade = ₹ 1,971.82 crore + ₹ 3,702.69 crore = ₹ 5,674.51 crore.



The State's own tax revenue increased from ₹ 7,355.34 crore in 2013-14 to ₹ 10,164.93 crore in 2017-18 (38.20 per cent). However, the States' own tax revenue during 2017-18 decreased by 6.72 per cent over the year 2016-17. The revenue from Taxes on Sales and Trade, Goods and services tax (₹ 5,674.51 crore) comprised a major share of tax revenue but it registered a decrease of 20.68 per cent over the previous year.

The respective Departments reported the following reasons for the variations:

Taxes on sales and trade, Goods and Services Tax: The decrease of 20.68 per cent over the previous year in the revenue receipt was due to implementation of new tax system *i.e.* GST since 01 July 2017 and heavy reduction in normal rates of tax.

State excise: The increase of 18.69 per cent over the previous year in the revenue receipt was due to effective control of the Department over revenue loss by utilisation of available adequate resources for prevention of smuggling and illegal production of liquor.

Stamp and Registration Fees: The increase in the Stamp Duty and Registration Fee of 13.46 per cent during 2017-18 as compared to the year 2016-17, was due to increase in the registration of instruments as compared to 2016-17.

Tax and duty on electricity: The increase of 71.63 per cent in revenue receipt in 2017-18 over the year 2016-17, was due to better realisation of electricity bills from consumers.

Motor vehicle tax: The increase of 46.66 *per cent* in revenue receipt in 2017-18 over the year 2016-17, was due to increase in registrations of vehicle, recovery of compounding fee through *challan*, licensing fee as compared to 2016-17.

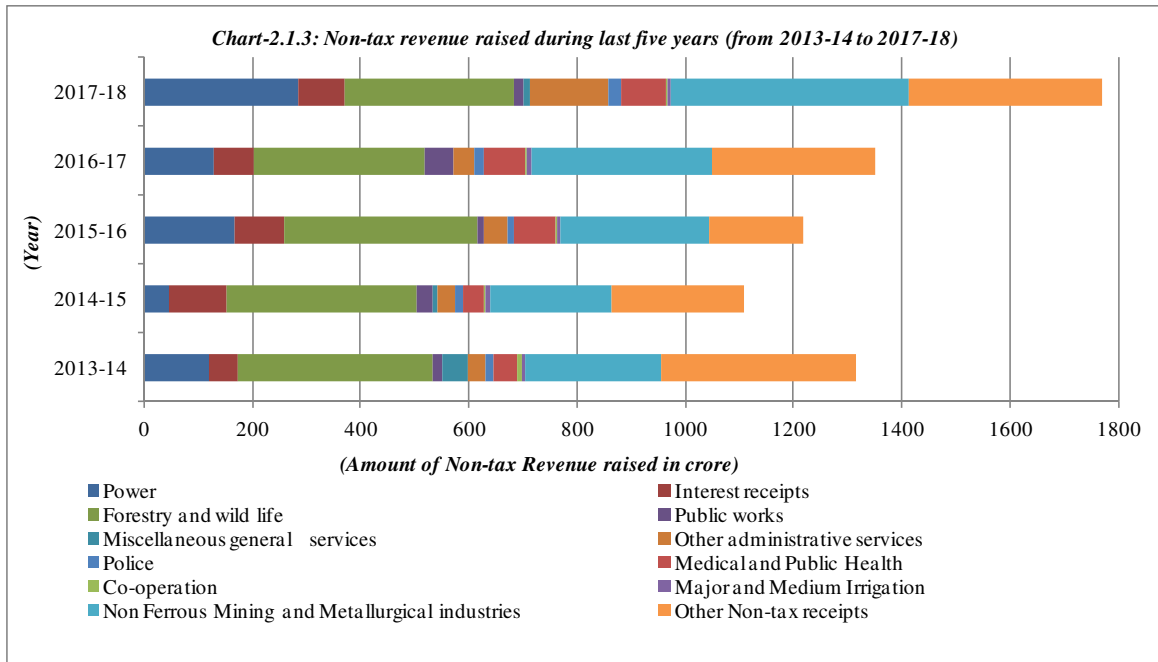
Other departments did not furnish any reason for variation (August 2019).

2.1.3 The details of non-tax revenue raised during the period 2013-14 to 2017-18 are indicated in **Table-2.1.3** below:

Table-2.1.3: Details of Non-Tax Revenue raised

Sl. No.	Head of revenue	₹ in crore					Percentage of increase (+) or decrease (-) in actual of 2017-18 over actual of 2016-17
		2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Actual	
1.	Power	121.11 (09.20)	45.01 (04.05)	168.57 (13.88)	130.08 (09.67)	286.21 (16.17)	(+) 120.03
2.	Interest receipts	51.12 (03.88)	108.17 (09.74)	89.22 (07.35)	71.77 (05.33)	85.39 (04.83)	(+) 18.98
3.	Forestry and wild life	362.70 (27.55)	351.24 (31.63)	357.47 (29.44)	318.21 (23.64)	312.20 (17.64)	(-) 1.89
4.	Public works	15.51 (01.18)	28.29 (02.55)	13.96 (01.15)	51.08 (03.80)	18.69 (01.06)	(-) 63.41
5.	Miscellaneous general services	48.74 (03.70)	8.26 (00.74)	(-) 5.50 (-) (00.45)	(-) 6.16 (-) (00.46)	11.31 (00.64)	(+) 283.60
6.	Other administrative services	32.38 (02.46)	33.50 (03.02)	43.19 (03.56)	38.90 (02.89)	143.56 (08.11)	(+) 269.05
7.	Police	13.39 (01.02)	16.51 (01.49)	11.18 (00.92)	17.43 (01.30)	23.56 (01.33)	(+) 35.17
8.	Medical and Public Health	44.04 (03.35)	37.78 (03.40)	76.86 (06.33)	78.70 (05.85)	84.12 (04.75)	(+) 6.89
9.	Co-operation	9.78 (00.74)	1.17 (00.11)	2.26 (00.19)	2.87 (00.21)	1.14 (00.06)	(-) 60.28
10.	Major and Medium Irrigation	6.75 (00.51)	9.22 (00.83)	7.92 (00.65)	6.97 (00.52)	7.67 (00.43)	(+) 10.04
11.	Non Ferrous Mining and Metallurgical industries	249.99 (18.99)	223.72 (20.15)	272.65 (22.46)	335.17 (24.90)	439.81 (24.85)	(+) 31.22
12.	Other Non-tax receipts	361.03 (27.42)	247.57 (22.29)	176.38 (14.53)	300.80 (22.35)	355.87 (20.11)	(+) 18.31
Total		1,316.54	1,110.44	1,214.16	1,345.82	1,769.53	(+) 31.48

Source: Finance Accounts.



Non-tax revenue showed a decreasing trend during the period 2013-14 to 2014-15. However, it showed an increasing trend from 2015-16 to 2017-18. The increase during 2016-17 and 2017-18 was ₹ 131.66 crore (10.84 per cent) and ₹ 423.71 crore (31.48 per cent) respectively over the previous years.

The respective Departments reported the following reasons for variations:

Co-operation: The main reason for decrease of 60.28 per cent of revenue receipt over the previous year was due to deposit of more audit fee by the co-operatives/institutions, decrease in arbitration fees, RTI fees, and revenue recovery by co-operatives/institutions.

Forestry and wild life: The decrease of 1.89 per cent in revenue receipt as compared to last year, was due to decrease in transit fee of forest produce and less sale of *leesa* (Resin).

Other departments did not furnish any reason for variation (August 2019).

2.1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2018 in some principal heads of revenue amounted to ₹ 6,825.94 crore, of which 1,757.61 crore were outstanding for more than five years as detailed in **Table-2.1.4** below:

Table-2.1.4: Arrears of Revenue

Head of revenue	Total Amount outstanding as on 31 March 2018 (₹ in crore)	Amount outstanding for more than five years as on 31 March 2018 (₹ in crore)	Replies of the Department
Taxes/ VAT on Sales and Trade/GST	5,661.89	1,753.45	Recovery of ₹ 548.73 crore (2,095 cases) is subjudice and recovery certificates have been issued for remaining ₹ 5,113.16 crore.
Taxes and Duties on Electricity	1,138.80	0.00	Arrear amount is under process for recovery.
Co-operation	2.00	2.00	Arrear amount is under process for recovery.
Stamp Duty and Registration Fees	16.78	-	Arrear amount is under process for recovery.
Taxes on Vehicles ⁷	5.59	1.61	Nine cases (₹ 0.05 crore) are subjudice. In remaining cases, recovery certificates/demand certificates have been issued.
State Excise	0.55	0.55	Three cases amounting to ₹ 0.38 crore are subjudice. And in one case, recovery certificate of ₹ 0.17 crore has been issued.
Entertainment Tax	0.33	0.00	14 cases amounting to ₹ 0.001 crore are subjudice. In remaining cases, recovery certificates have been issued.
Total	6,825.94	1,757.61	

Source: Departmental figures.

2.1.5 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 the number of cases pending for finalisation at the end of the year as furnished by the Commercial Tax Department in respect of Sales Tax/VAT/GST are given below in **Table-2.1.5** below:

⁷ Except information related to Dehradun and Udham Singh Nagar.

Table-2.1.5: Arrears in Assessments

Head of revenue	Opening balance	New cases due for assessment during 2017-18	Total assessments due	Cases disposed of during 2017-18	Balance at the end of the year	Percentage of disposal (col.5 to 4)
1	2	3	4	5	6	7
Taxes/VAT on sales and Trade/GST	1,25,201	69,529	1,94,730	1,25,332	69,398	64.36

Source: Information provided by the Commercial Tax Department.

The cases disposed of during 2017-18 were much more than the new cases due for assessment during 2017-18. This resulted in decrease in the cases pending for assessment at the close of year 2017-18.

2.1.6 Evasion of tax detected by the Commercial Tax Department

The details of cases of evasion of tax detected by the Commercial Tax Department, cases finalised and the demands for additional tax raised in 2017-18 as reported by the Department are given in **Table-2.1.6** below:

Table-2.1.6: Evasion of Tax (₹ in crore)

Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	Total	Number of cases in which assessment/investigation completed and additional demand with penalty raised		Number of cases pending for finalisation as on 31 March 2018
				Number of cases	Amount of demand	
Taxes / VAT on sales and Trade / GST	576	338	914	837	17,603.00	77
Entertainment Tax	93	111	204	118	4.02	86

Source: Departmental figure.

The number of cases pending at the end of the year has decreased in the case of Taxes/VAT on sales and Trade/GST and Entertainment Tax as compared to the number of cases pending at the start of the year. The amount of recovery made against the demands raised was not intimated by the Department (August 2019).

2.1.7 Refund cases

The number of refund cases pending at the beginning of the year 2017-18, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2017-18, as reported by the Commercial Tax Department, are given in **Table-2.1.7** below:

Table-2.1.7: Details of Refund Cases (₹ in crore)

Particulars	Sales tax / VAT	
	No. of cases	Amount
Claims outstanding at the beginning of the year	1,028	34.20
Claims received during the year	5,792	94.79
Refunds made during the year	5,213	109.76
Balance outstanding at the end of year	1,607	19.23

Source: Departmental figure.

Section 36 (3) of Uttarakhand VAT Act, 2005, provides for payment of simple rate of interest of nine *per cent* per annum if the refund is made after two months. To avoid interest liability, it is recommended that the State Government may ensure disposal of refund claims in time.

2.1.8 Response of the Departments towards audit

The Principal Accountant General (Audit), Uttarakhand, conducts periodical inspection of Government departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed in the applicable rules and procedures. The irregularities detected during the inspection and not settled on the spot are incorporated in Inspection Reports (IRs) which are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking corrective action. The Heads of the Offices are required to comply with the observations contained in the IRs, within four weeks from the date of receipts of the IRs. Serious irregularities are reported to the Heads of the Department and the Government.

There were 2,764 paragraphs involving ₹ 1,367.35 crore relating to 1,250 IRs that remained outstanding at the end of June 2018. The details along with the corresponding figures for the preceding two years are mentioned in **Table-2.1.8** below:

Table-2.1.8: Details of Pending Inspection Reports

Details of IRs	June 2016	June 2017	June 2018
Number of IRs pending for settlement	977	1,091	1,250
Number of outstanding audit paragraphs	2,150	2,431	2,764
Amount of revenue involved (₹ in crore)	264.99	583.02	1,367.35

2.1.8.1 The department-wise details of IRs and outstanding audit paragraphs as on 30 June 2018 and the amounts involved are mentioned in **Table-2.1.9** below:

Table-2.1.9: Department-wise details of IRs and paragraphs

Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
Finance	Taxes on Sales, Trade, SGST and luxury tax	604	1,496	249.61
	Entertainment	14	9	0.07
Excise	State Excise	102	167	210.19
Transport	Taxes on motor vehicles	120	273	230.09
Stamp and Registration	Stamp and registration fees	324	497	14.33
Mining	Mining	22	91	287.09
Forest	Forest	64	231	375.97
Total		1,250	2,764	1,367.35

The large pendency of the IRs was due to non-receipt of the replies which is indicative of the fact that the Heads of Offices and the Departments did not initiate necessary action to rectify the defects, omissions and irregularities pointed out in the IRs by the Principal Accountant General.

The Government may consider putting in place an effective system for ensuring prompt and appropriate responses to the outstanding audit observations.

2.1.8.2 Departmental audit committee meetings

The Government sets up audit committees to monitor and expedite the progress of the settlement of the IRs and of the paragraphs in the IRs. During the year 2017-18, two meetings of departmental audit committee were held for settlement of paragraphs related to Forest Department wherein 117 paragraphs involving an amount of ₹ 41.61 crore were settled.

In view of the large number of pending IRs and audit paragraphs, the Government may consider instructing all departments to regularly hold meetings of the audit committees, in consultation with the Principal Accountant General, to expedite their settlement.

2.1.8.3 Response of the Departments/Government to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the Principal Accountant General 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 the replies from the Departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

One performance audit⁸ and eight draft paragraphs was sent to the Principal Secretaries/Secretaries of the respective Departments between March 2018 and June 2018. Out of these, the replies of the Government were received for one Performance Audit and two drafts paragraphs, which was incorporated in the paragraph. The remaining six draft paragraphs have been included in this Chapter without the response of the Government as the replies were awaited (August 2019). However, the response from the concerned auditee units has been received and the same was suitably incorporated in the report.

2.1.8.4 Follow-up on the Audit Reports-summarised position

The Public Accounts Committee (PAC) notified in December 2002 that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs *suo-motu* irrespective of whether these are taken up for discussion by PAC and the action taken notes (ATNs) thereon should be submitted by the Government within three months of tabling of the Report for consideration of the Committee. In spite of these provisions, the ATNs on audit paragraphs of the Reports were being delayed inordinately. 35 paragraphs were included in the Audit Reports for the years 2010-11 to 2016-17. The Audit Reports were placed before the State Legislative Assembly between December 2012 and September 2018. The ATNs from the concerned departments on five paragraphs were received late with an average delay of ten months in respect of each of these Audit Reports. However, in respect of 18 paragraphs⁹ from five departments had not been received (August 2019).

No paragraph relating to Revenue was discussed in the PAC during the year 2017-18.

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

To analyse the system of redressal of issues highlighted in the IRs by the Government, the action taken on the paragraphs included in the IRs of the last five years for Commercial Tax Department was evaluated.

The summarised position of IRs relating to the Commercial Tax Department issued during the last five years, paragraphs included in these reports, and their status as on 31 March 2018 are tabulated in **Table-2.1.10** below:

⁸ Revenue Receipts from Forest Department.

⁹ Excluding paragraph related to the Audit Report for the year 2016-17.

Table-2.1.10: Position of IRs

(₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value
2013-14	412	1,096	93.89	35	140	21.26	36	156	10.38	411	1,080	104.77
2014-15	411	1,080	104.77	44	135	8.83	17	100	13.12	438	1,115	100.48
2015-16	438	1,115	100.48	46	199	42.23	06	59	2.06	478	1,255	140.65
2016-17	478	1,255	140.65	52	265	44.57	06	94	39.73	524	1,426	145.48
2017-18	524	1,426	145.48	71	229	109.01	7	140	10.75	588	1,515	243.74

As against 412 IRs with 1,096 outstanding paragraphs at the beginning of 2013-14, the number of outstanding IRs rose to 588 with 1,515 paragraphs at the end of 2017-18 while only 549 paragraphs were cleared during the period 2013-14 to 2017-18.

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

Performance audits conducted by the Principal Accountant General are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These are also discussed in exit conference and the Department's/Government's views are included while finalising the performance audits for the Audit Reports.

Three performance audits on Commercial Tax Department, one on Transport Department, one on Mining Department and one on Stamp and Registration Department featured in the last five years' Audit Reports. A total of 25 recommendations had been made to the Government for consideration in the light of the audit findings. The details of ATNs on the recommendations are given in **Table-2.1.11** below:

Table-2.1.11: Action Taken on Recommendations accepted by Government

Year of Audit Report	Name of Performance Audit	No. of Recommendation	Status
2010-11	Cross Verification of Declaration Forms in Inter State Trade and Commerce	08	ATN received on 30.10.2013 Pending for discussion
2011-12	Administration of VAT	07	ATN not received
2013-14	Levy and collection of Taxes on Motor Vehicles Tax	03	ATN not received
	Receipt of Minor Minerals	02	
2014-15	Pendency of cases in the Revenue Department	02	ATN not received
2015-16	Levy and collection of Stamp Duty & Registration Fees	03	ATN not received

2.1.11 Audit Planning

During the year 2017-18, out of total 316 auditable units, 169 units were planned and 168 units were audited. The units were selected on the basis of risk analysis.

2.1.12 Results of audit

Position of local audit conducted during the year

Test-check of the records of 168 units of the Department of Commercial Tax, State Excise, Stamp and Registration, Entertainment Tax, Forest, and Mines & Minerals Department conducted during the year 2017-18 revealed under assessment/short-levy/loss

of revenue and other irregularities involving ₹ 1,545.69 crore in 530 paragraphs as categorised in **Table-2.1.12** below:

Table-2.1.12: Category-wise Audit observations

Sl. No.	Categories	No. of paras	Amount (₹ in crore)
Sales Tax/Value Added Tax			
1.	Short-levy of penalty	64	12.92
2.	Irregular allowance of concessional rate of tax	81	9.27
3.	Other Irregularities	95	77.93
Total		240	100.12
Mines & Minerals			
1.	Short-levy/Non-levy of Royalty, short-levy of penalty on illegal mining of minor minerals and other miscellaneous irregularities.	60	13.73
Total		60	13.73
Forest			
1.	Revenue loss due to short extraction of <i>leesa</i> as per prescribed norms, Loss of revenue due to leakage of stored <i>leesa</i> , Non-recovery of interest on delayed deposit of lease rent and other miscellaneous irregularities.	86	260.88
2.	Other irregularities	87	81.05
3.	PA on "Forest Receipts from Forest Department"	01	985.68
Total		174	1,327.61
State excise			
1.	Revenue loss due to short-levy of tax on application form	6	5.27
2.	Revenue loss due to non-recovery of license fee	11	58.05
3.	Short-levy of stamp duty	7	0.10
4.	Other irregularities	12	9.06
Total		36	72.48
Stamp Duty and Registration Fee			
1.	Short-levy of stamp duty and registration fee	13	16.67
2.	Other irregularities	07	15.08
Total		20	31.75
Grand Total		530	1,545.69

During the course of the year, the concerned departments accepted under-assessment and other deficiencies of ₹ 33.79 crore involved in 104 paragraphs which were pointed out in audit during 2017-18. The Departments collected ₹ 0.99 crore during 2017-18.

2.1.13 Coverage of the Revenue Chapter

The Revenue Chapter contains one performance audit¹⁰ and eight audit paragraphs involving financial effect of ₹ 992.83 crore, out of which, the Departments/Government have accepted audit observations involving ₹ 1.25 crore in four cases (two partial cases). These are discussed in succeeding paragraphs of Chapter-II.

¹⁰ Revenue Receipts from Forest Department.

Part-II

2.1.14 Preparedness for transition to Goods and Services Tax (GST)

Goods and Services Tax (GST) was implemented with effect from 1 July 2017. GST¹¹ is being levied on intra-State supply of goods or services (except alcohol for human consumption and five specified petroleum products¹²) separately but concurrently by the Union (CGST) and the State (SGST)/Union territories (UTGST). Further, Integrated GST (IGST) is being levied on inter-State supply of goods or services (including imports) and the Parliament has exclusive power to levy IGST. Prior to implementation of GST, VAT was leviable on intra-State sale of goods in the series of sales by successive dealers as per Uttarakhand Value Added Tax (UVAT) Act, 2005 and Central Sale Tax (CST) on sale of goods in the course of inter-State trade or commerce as per CST Act, 1956.

The State Government was empowered to regulate the provisions of UVAT Act whereas provisions relating to GST were being regulated by Centre and State on the recommendation of Goods and Services Tax Council (GSTC) which was constituted with representation from Centre and all the States to recommend on the matters related to GST. The State Government notified (June 2017) the Uttarakhand Goods and Services Tax (UGST) Act, 2017 and the Uttarakhand Goods and Services Tax Rules, 2017 wherever various taxes¹³ were subsumed.

Goods and Services Tax Network (GSTN) was set up by the Government of India as a private company to provide IT (Information Technology) services. It provides Front-end IT services to taxpayers namely registration, payment of tax and filling of returns. Back-end IT services *i.e* registration approval, taxpayer detail viewer, refund processing. MIS reports *etc.* are also being provided by GSTN to Model-II¹⁴ States. Uttarakhand has opted for Model-II.

2.1.14.1 Audit objectives

The audit was conducted with a view:

- to evaluate the preparedness of the State Government for implementing the IT solution;
- to assess the capacity building measures undertaken by State Government for its employees for framing / implementing the Rules/Regulations/IT systems and
- to analyse the strategy of the State Government in handling the issues of legacy tax regime.

2.1.14.2 Audit criteria

The audit criteria were derived from the provisions of the following acts, rules and notifications / circulars issued thereunder:

- Uttarakhand GST Act, 2017.

¹¹ Central GST: CGST and State / Union Territory GST: SGST/UTGST.

¹² Petroleum products: crude, high speed diesel, petrol, aviation turbine fuel and natural gas.

¹³ Value Added Tax, Central Sales Tax, Entry Tax, Luxury Tax and Entertainment Tax *etc.*

¹⁴ Model I- States: only Front-end services provided by GSTN.

Model II States: both Front-end and Back end services provided by GSTN.

- Uttarakhand GST Rules, 2017
- GST (Compensation to States) Act, 2017
- Acts relating to subsumed taxes and rules made thereunder.
- Uttarakhand VAT Act, 2005. Uttarakhand Tax on entry of goods into local area Act, 2008, Central Sales Tax Act, 1956 and other guidelines issued by Central / State Government and GST Council.

2.1.14.3 Scope of Audit

The activities of the State Government / State Tax Department relating to implementation of GST since 101st amendment to the constitution of India *i.e.* 8th September 2016 to March 2018 were reviewed. Besides, information received from the State Tax Department regarding its preparedness for transition to GST, data available on the departmental web based application and legacy issues *i.e.* assessment, recovery, *etc.* were examined.

2.1.14.4 Trend of Revenue from 2013-14 to 2017-18

GST was implemented from July 2017 and total receipts under GST including non-subsumed/subsumed taxes from April 2017 to March 2018 were ₹ 7,006 crore (including provisional apportionment of IGST and Compensation to the State). Actual receipts under pre-GST taxes and GST as well as compensation received during 2017-18 are given in **Table-2.1.13** below:

Table-2.1.13: Receipts under pre-GST taxes and GST as well as compensation received during 2017-18

(₹ in crore)

Year	Budget Estimate (BE) / Target	Receipts under pre-GST taxes	Receipts under SGST	Provisional apportionment of IGST	Total receipts under pre-GST Taxes and GST	Increase in per cent	Compensation received	Total receipts including Compensation	Projected Revenue
1	2	3	4	5	6	7	8	9	10
2013-14	4,847	4,903	Not applicable		4,903		Not applicable	4,903	-
2014-15	5,459	5,465			5,465	(+)11.46		5,465	-
2015-16	6,210	6,105			6,105	(+)11.71		6,105	-
2016-17	7,323	7,154			7,154	(+)17.18		7,154	-
2017-18	8,876	3,751	1,650	322	5,723	(-)20.00	1,283	7,006	4,836*

Source: Finance Accounts and State Finance Report.

*The projected revenue for the year 2017-18 (01 July 2017 to 31 March 2018) in accordance with the base year (2015-16) revenue figure was ₹4,836 crore.

The above table indicates that there was an increasing trend in receipts upto 2016-17.

2.1.14.5 Legal / statutory preparedness

The State Government notified (June 2017) the Uttarakhand GST Act and Rules 2017. E-way bill system was implemented in the State on inter-state transaction with effect from 01.04.2018 and on intra-state transaction with effect from 20.04.2018. Further, necessary notifications were issued by the State Government from time to time for facilitating implementation of GST in the State. The State Government / State Tax Department had issued 170 notification / circulars / orders regarding GST from June 2017 to March 2018.

2.1.14.6 IT Preparedness and capacity building efforts by the Department

GSTN was to provide three front-end services to the taxpayers namely registration, payment of tax and filing of returns. As Uttarakhand had opted model-II for implementation of GST, back-end applications like registration approval, taxpayers detail viewer, Letter of Undertaking (LoU) processing, refund processing, Management Information System (MIS) reports, *etc.* for GST administration were being developed by GSTN. As per information provided by the Department, the data relating to GST is provided to the Department by GSTN through SFTP Server (Secure File Transfer Protocol) which is maintained by the Department.

Training on IT application, utilities of software, GST Act's and Rules was provided to 106 officers of the Department in 20 workshops outside the State by NACEN¹⁵ / GSTN / Central Government. Besides this, ministerial officials were also provided training on IT and other GST related topics. Further, more than 764 Seminars / workshops were organised by the Department in which about 28,415 stake-holders / taxpayers participated. GST corner tab was also provided on the departmental website (comtaxappl.uk.gov.in/gst web) for related information such as Act/Rules, notifications / circulars / orders, help / FAQ / training programmes, GST *mitra*, e-way bill, *etc.* Help desk was also established by the Department for redressal of legal and technical problems being faced by taxpayers.

2.1.14.7 Implementation of GST

Audit noticed that the major issues / challenges faced by the Department in implementation of GST were in registration, migration, allocation of taxpayers, filing of return, payment of tax, refund, *etc.* These issues along with the changes in Rules and Regulations made since 01 July 2017 by the State Government were analysed in audit and are briefly discussed as follows:

(i) Registration of taxpayers

Every person registered under any of the pre-GST laws and having a valid Permanent Account Number (PAN) was to be issued a certificate of registration on provisional basis. Thereafter, final certificate of registration was to be granted on completion of prescribed conditions. Further, tax payers having turnover of more than the threshold limit of ₹ 20 lakh were required to be registered under GST.

(ii) Migration of existing taxpayers of State Tax Department

As per Rule 17 of Uttarakhand GST (Registration) Rules, 2017, every person registered under any existing law of subsumed taxes and having a PAN shall enroll on common portal by validating his e-mail address as well as mobile number. Such person shall be granted registration on a provisional basis. Every person who has been granted a provisional registration shall submit an application along with the information and documents specified in the application on common portal. A certificate of registration shall be made available to the registered person electronically if the information and the

¹⁵ National Academy of Customs Excise and Narcotics.

particulars furnished in the application are found to be correct and complete. As per information provided by the Department, status of provisional registration and final registration of existing registered dealers in the State Tax Department as on 31 March 2018 is given in **Table-2.1.14** below:

Table-2.1.14: Status of provisional registration and final registration of existing registered dealers in the State Tax Department as on 31 March 2018

Total number of existing registered dealers with valid PAN (1)	Total number of provisional ID received from GSTN (percentage w.r.t. column 1) (2)	Number of dealers primary enrolled (percentage w.r.t. column 1) (3)	Complete enrollment done (percentage w.r.t. column 1) (4)
1,62,820	1,20,937 (74 per cent)	89,617 (55 per cent)	83,104 (51 per cent)

Source: Information furnished by State Tax Department.

It would be seen from the above table that 55 per cent of the existing dealers completed the primary enrollment and 51 per cent of the existing dealers completed the migration process and were finally registered under GST.

Some of the reasons for non-migration were that the dealers' turnover was either below the threshold limit or nil, having duplicate PAN, closure of business and business started with new registration etc.

(iii) Allocation of taxpayers between Centre and State

a. Existing registered taxpayers of State Tax Department and Central Excise Department: As per recommendation of GST Council, 90 per cent of existing registered taxpayers having turnover up to ₹ 1.5 crore and 50 per cent of existing registered taxpayers having turnover of more than ₹ 1.5 crore were allotted to the State. Accordingly State was allotted the jurisdiction of 82,672 existing registered tax payers (March 2018), as detailed in **Table-2.1.15** below:

Table-2.1.15: Number of existing registered taxpayers (having turnover up to ₹ 1.5 crore and more than ₹ 1.5 crore) of State Tax Department and Central Excise Department

Existing registered taxpayers			
	Turnover above ₹ 1.5 crore	Turnover below ₹ 1.5 crore	Total
1	2	3	4
State	8,171	74,501	82,672
Central	5,224	37,260	42,484
Total	13,395	1,11,761	1,25,156

Source: Information furnished by State Tax Department as per position of 31.03.2018.

b. New taxpayers: Jurisdiction of newly registered taxpayers is being allotted to the State and Centre by GST portal electronically during submission of application for registration by the taxpayers. Position of new registration under the jurisdiction of State as on 31.03.2018 is given in **Table-2.1.16** below:

Table-2.1.16: Position of new registration under the jurisdiction of State as on 31.03.2018

Applications received upto 31.03.2018 1	Number of applications rejected 2	Number of applications approved 3	Number of applications pending 4
31,286	4,578	26,242	466

Source: Information furnished by State Tax Department.

Thus, 466 applications were pending at various stages of registration as on 31.03.2018.

(iv) Filing of returns

As per Rule 59 to 61 of Uttarakhand GST Rules, 2017, taxpayers other than composition taxpayers were required to furnish details of outward supplies of goods or services in FORM GSTR-1¹⁶, details of inward supplies of goods or services in form GSTR-2¹⁷ and a return in form GSTR-3 (electronically generated by system on the basis of information furnished through GSTR-1 and GSTR-2) monthly, whereas composition taxpayers were required to file a quarterly return GSTR-4.

The prescribed process of return filing was amended to address the difficulties faced by the taxpayers in the initial period of the new tax regime. The filing of GSTR-2 and GSTR-3 was postponed and all taxpayers were mandated to submit a simple monthly return in GSTR-3B¹⁸ with payment of tax by 20th of the succeeding month. Further, taxpayers having turnover below ₹ 1.5 crore were to file GSTR-1 on quarterly basis. The details of taxpayers who had filed their return (GSTR-3B) during the period July 2017 to March 2018 are given in **Table-2.1.17** below:

Table-2.1.17: Details of taxpayers who had filed their return (GSTR-3B) during the period July 2017 to March 2018

Month / year	Total taxpayers	No of taxpayers who had filed the returns	No. of taxpayers who had not filed the returns	Percentage of taxpayers who had filed the returns
July 2017	82,702	80,889	1,813	98
August 2017	91,527	87,904	3,623	96
September 2017	97,364	92,395	4,969	95
October 2017	99,410	86,502	12,908	87
November 2017	1,01,339	87,619	13,720	86
December 2017	1,02,654	88,683	13,971	86
January 2018	1,03,739	90,626	13,113	87
February 2018	1,04,462	92,284	12,178	88
March 2018	1,05,023	94,231	10,792	90

It can be seen that percentage of returns filed has decreased from 98 *per cent* (July 2017) to 90 *per cent* (March 2018). Audit is of the view that Department needs to take concrete steps to ensure pending returns are filed by taxpayers expeditiously.

(v) Payment of tax by composition dealers

Any taxable person whose aggregate turnover in any preceding financial year is less than ₹ 75 lakh can opt for a simplified composition scheme where tax will be payable at a

¹⁶ GSTR-1: (a) Invoice wise details of all inter-State and intra-State supplies made to the registered persons and inter-State supplies with invoice value more than ₹ 2.50 lakh made to the unregistered persons. (b) Consolidated details of all intra-State supplies made to unregistered persons and State wise inter-State supplies with invoice value upto ₹ 2.50 lakh made to the unregistered persons and (c) debit and credit notes, if any, issued during the month.

¹⁷ GSTR-2: (a) Invoice wise details of all inter-State and intra-State supplies received from the registered persons or unregistered persons. (b) import of goods and services made and (c) Debit and credit notes, if any received from supplier.

¹⁸ GSTR-3B: A monthly return required to be filed by all taxpayers other than composition taxpayers.

concessional rate of one *per cent* on the turnover in a State without benefit of input tax credit. Quarterly return GSTR-4 is required to be filed after payment of due tax.

The position of returns filed is given in **Table-2.1.18** below:

Table-2.1.18: Details of taxpayers and returns filed

Quarter	Eligible taxpayers to file GSTR-4	Total returns filed	Percentage
September 2017	25,805	17,012	66.00
December 2017	28,480	26,949	95.00
March 2018	30,441	28,153	92.00

Further, 66 to 95 *per cent* of the Composition Tax Payers had filed their quarterly return GSTR-4. Thus, monitoring of these returns was important to ensure timely deposit of due tax by the taxpayers.

(vi) Refund under GST

Refund module under GSTN was not operational. Hence, the refunds are being allowed through manual system to the applicants. Specific procedures were prescribed for refund of the balance amount in the electronic cash ledger or unutilised input tax credit at the end of particular tax period. Refund of unutilised input tax credit was allowed in case of zero-rated supplies made without payment of tax or when the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies. As per information provided by the Department, the position of refunds (from July 2017 to March 2018) was as given in **Table-2.1.19** below:

Table-2.1.19: Position of refunds under GST (from July 2017 to March 2018)

(₹ in crore)

Applications received for refund upto 31.03.2018		Refund allowed within prescribed period of 60 days		Refund allowed after prescribed period of 60 days		Number of application rejected
Number of taxpayers	Amount	Number of taxpayers	Amount	Number of taxpayers	Amount	
1	2	3	4	5	6	7
174	9.37	174	9.37	-	-	-

Source: Information furnished by State Tax Department.

The Department, therefore, provided refund within the prescribed period of 60 days in all cases of receipt of applications for refund upto 31 March 2018.

2.1.14.8 Legacy issues

Audit assessed the legacy issues regarding assessment and recovery of arrears and our observations are as follows:

(i) Assessment of dealers

Dealers were registered under UKVAT Act, 2005, CST Act, 1956 and other minor taxes *i.e.* entry tax, luxury tax, entertainment tax, *etc.* prior to implementation of GST. Therefore, assessments of the dealers registered under VAT, luxury tax and entry tax of old tax regime for the year 2014-15, 2015-16, 2016-17 and 2017-18 were to be completed by the Department within the prescribed period of three years after the relevant financial year. Under the provision of section 25-A of UKVAT Act 2005 (as amended on 30.6.2017) with the objective to dispose off a large number of pending annual

assessments, the commissioner may, by notification declare that the registered dealers, as listed in such notification are deemed to have been self-assessed under UKVAT Act 2005 or CST Act 1956 subject to certain conditions as laid down under this section. However, the government did not introduce any self-assessment scheme for luxury and entry tax. The commissioner state tax issued a guideline (13 July 2017) in respect of the dealer deemed to have been self-assessed. As per information provided by the Department all assessment for 2013-14 and 2014-15 had been completed. The date of submission of annual returns for the year 2015-16 had been extended upto 31st March 2017. Further, the last date of filing of annual returns for the year 2016-17 was 30th June 2018 and for the assessment year 2017-18, it was 30th June 2019.

As per the Departmental reply, 69,398 cases were pending for assessment in the Department as on 31st March 2018. Further, the last date of assessment for the assessment year 2015-16 was 30.06.2019 as fixed by the Department.

Scrutiny of Deemed Assessment Scheme disclosed that there is no provision in the deemed assessment scheme for verification of ITC and various declaration forms furnished by dealers for non-payment of tax or payment of tax on concessional rate. Hence, there is a risk of revenue leakage while finalising assessments under this scheme.

(ii) Recovery of arrears

The Department had classified the arrears in two different categories *i.e.* covered and uncovered. As per information furnished by the Department, arrears aggregating ₹ 7,486.96 crore¹⁹ (covered²⁰ ₹ 2,984.63 crore and uncovered²¹ ₹ 4,502.33 crore) were pending as on 31.03.2018. Further, out of total arrears of ₹ 7,486.96 crore, arrears of ₹ 4,566.81 crore were stayed by Court/ Government or on administrative grounds.

2.1.14.9 Conclusion

The Government/Department was prompt in its preparedness for implementation of GST as can be seen with reference to enactment of the Act and Rules as per model law approved by GST Council, primary enrolment of existing taxpayers, capacity building efforts, *etc.* Audit noticed that frequent changes were made in the rules/regulations since 1st July 2017 on the recommendations of the GST Council by the State Government. Further, the GSTN has not been able to provide the complete IT solution and thus the problems regarding filing of returns GSTR-2 and GSTR-3 have not been resolved. Further, the Department needs to sort out the legacy issues like assessment of pre-GST cases and recovery of arrears expeditiously in a time bound manner through focused arrangements.

¹⁹ VAT: ₹ 5,661.89 crore and remaining subsumed taxes (Central Sales Tax, Entry Tax, Luxury Tax and Entertainment Tax *etc.*): ₹ 1,827.07 crore.

²⁰ Covered arrears are those in which Recovery Certificates (R C) have been issued to the dealers through District Magistrates.

²¹ Uncovered arrears are those in which R.C have not been issued to the dealers.

PERFORMANCE AUDIT

FOREST DEPARTMENT

2.2 Revenue Receipts from Forest Department

The subject 'Forests' is included in the 'Concurrent List' of the seventh schedule to Article 246 of the Constitution of India. The Indian Forests Act, 1927 and Forest Conservation Act (FC Act) 1980 which are Central Legislations and Uttarakhand Timber & Other Forest produce Transit Rules, 2012 and Minor Mineral Concession Rules, as amended, and the notifications/orders issued there under from time to time govern the management and control of forestry and realisation of revenue by way of royalties, fees and penalties from various forest produce.

The forests are natural unique resources which are capable of sustaining themselves automatically. The Department has the primary duty of managing the forests in a sustainable manner and protect, conserve and augment them with plantation activities. Sustainability of forest resources is also important for providing steady revenues to the Government from silvicultural operations. Forest receipts are non-tax receipts and during the period 2013-14 to 2017-18, it accounted for 17.58 *per cent* to 31.63 *per cent* of the total non-tax receipts of Government of Uttarakhand (GoU). This performance audit on 'Revenue Receipts from Forest Department' was conducted to ascertain whether steps taken by the GoU to optimise revenue from forest resources were adequate and the resources available for exploitation were tapped optimally to augment revenue in the best interest of the State. The performance audit revealed a number of system deficiencies and highlights opportunities for the Government to generate substantial revenue from forest resources. Some of the significant findings are as below:

Highlights

➤ *The Department suffered from a systemic problem of delays in preparation of working plans as none of the existing 24 working plans could be prepared by the Department in time. It did not set up permanent working plan units as envisaged in the National Working Plan Code 2014 for overcoming the issues of delay in preparation of working plans.*

[Paragraph 2.2.7.1 & 2.2.7.2]

➤ *Delay in preparation and approval of working plans led to cessation of felling operations in two divisions resulting in non-realisation of royalty of ₹75.37 crore.*

[Paragraph 2.2.8.1]

➤ *The Department failed to realise revenue of ₹330.12 crore due to non-execution of canopy opening operation in Sal forests. Besides, lack of canopy opening has adverse impact on growth of new Sal trees and the overall quality of Sal forests.*

[Paragraph 2.2.8.2]

- *Absence of marking operations led to non-felling of trees and non-production of estimated quantity of timber in two divisions resulting in non-realisation of royalty of ₹27.90 crore.*
[Paragraph 2.2.8.3]
- *Non-felling of trees by UFDC resulted in non-production of timber on which loss of royalty works out to ₹14.28 crore.*
[Paragraph 2.2.8.4]
- *Erroneous fixation of royalty of eucalyptus led to loss of ₹31.19 crore to the Department during 2013-18.*
[Paragraph 2.2.8.5]
- *UFDC earned ₹13.94 crore by auctioning fuel wood and ₹42.17 crore from sale of tree roots during 2013-18. However, the Department did not get any share of these amounts due to absence of mechanism for levy of royalty on tree roots and fuel wood.*
[Paragraph 2.2.8.6]
- *Short-production of resin due to failure of Badrinath and Tehri forest divisions in following the timelines for resin extraction resulted in loss of ₹2.39 crore.*
[Paragraph 2.2.9.1]
- *The Department faced a recurring loss of ₹2.47 crore per annum due to non-inclusion of eligible pine trees in the working plan for resin production.*
[Paragraph 2.2.9.2]
- *Conservator of Forests, Western Circle caused loss of revenue to the Department by cancelling public demand of ₹1.96 crore and reducing demand of ₹6.34 crore to ₹0.29 crore without any basis against the UFDC for illegal mining from river beds.*
[Paragraph 2.2.10.2]
- *Recovery of transit fee on minor minerals at erroneous rates resulted in loss of ₹72.27 lakh.*
[Paragraph 2.2.10.3]
- *Premium and lease rent of ₹417.95 crore due for recovery from the lessees in eight cases were not recovered by the Department.*
[Paragraph 2.2.10.4]

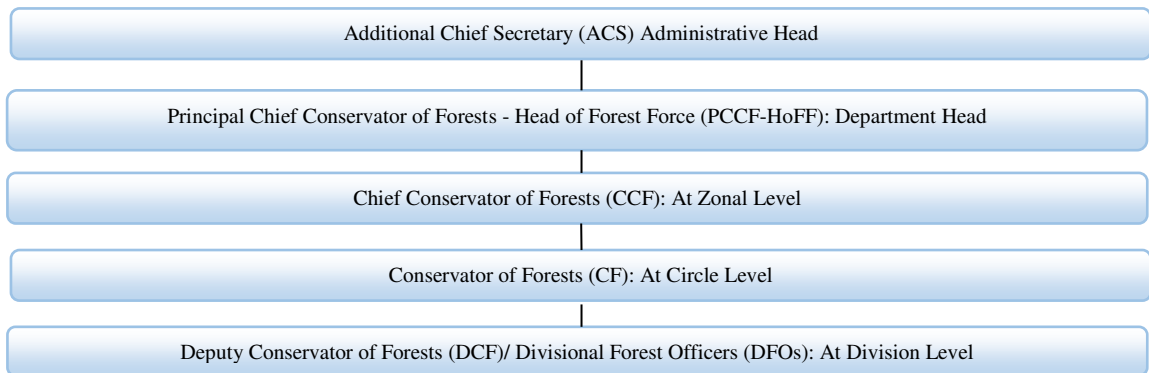
2.2.1 Introduction

Forests in Uttarakhand are spread over 24,678 square kilometres which is 46 per cent of the total geographical area (53,483 square kilometres) of the State. Forest produce, generated as by-product of the silvicultural operations carried out in the forests, is a major source of revenue for the Department. Audit covered 11 auditee units carrying out various activities. The details of main sources of revenue of the Department and the concerned divisions are provided in **Table-2.2.1**:

Table-2.2.1: Main Sources of Revenue of Forest Department

Sl. No.	Source of Revenue	Related Forest Produce/item	Concerned selected Divisions	Governing Act/Rule/Provision
1.	Royalty	Timber	Pithoragarh Badrinath; Tehri; Tarai West; Tarai East; Tarai Central; Ramnagar; Nainital; Soil Conservation Kalsi; Dehradun	Indian Forest Act, 1927; <i>Kataan Chiran Kee Shartein, 2012</i> ; provisions of WPs; and standing instructions of the Department
2.	Sale price	Resin	Badrinath, Tehri and Nainital	Uttarakhand Resin Policy, 2003 and orders issued by the Department.
3	Transit fee	Transportation of all forest produce through forests	Pithoragarh Badrinath; Tehri; Tarai West; Tarai East; Tarai Central; Ramnagar; Nainital; Soil Conservation Kalsi; Dehradun	Uttarakhand Timber and other Forest Produce Transit Rules, 2012
4.	Transit Fee & Road maintenance fee	Transportation of minor minerals mined in the forest areas only	Tarai East, Tarai West and Dehradun where minor minerals are extracted	
5.	Premium and lease rent	Transfer of forest land	Pithoragarh Badrinath; Tehri; Tarai West; Tarai East; Tarai Central; Ramnagar; Nainital; Soil Conservation Kalsi; Dehradun and Rajaji Tiger Reserve	Forest Conservation Act, 1980 and related Government Orders
6.	Penalties and compounding fees	Forest offences like illegal felling and mining.	Pithoragarh Badrinath; Tehri; Tarai West; Tarai East; Tarai Central; Ramnagar; Nainital; Soil Conservation Kalsi; Dehradun and Rajaji Tiger Reserve	Indian Forest Act, 1927

2.2.2 Organisational set-up



2.2.3 Audit objectives

The Performance Audit was conducted to assess whether:

- the production and other revenue generating activities were being executed economically, efficiently and effectively;

- the extracted forest produce was being disposed off efficiently to optimise the revenue; and
- the internal control mechanism and accounting systems were efficient enough to ensure that there was no leakage of revenue and revenue collected was being accounted properly.

2.2.4 Audit criteria

The performance audit was based on the criteria derived from the following sources:

- The Indian Forest Act, 1927;
- Forest Conservation Act, 1980;
- The National Working Plan Code 2004 and 2014;
- Uttarakhand Transit of Timber and Other Forest Produce Rules, 2012;
- Uttarakhand Minor Mineral (Concession) Rules, 2001;
- Forest Financial Rules; and
- Instructions and orders related with revenue generating activities and accounting system issued by the State Government and the Department.

2.2.5 Audit scope and methodology

The Performance Audit was carried out during January 2018 to August 2018 and covered the period of 2013-14 to 2017-18. The audit was conducted by examining the records of eleven²² out of 44 units²³ which generated revenue of more than ₹ 1.00 lakh during the period of 2012-17. The 11 selected units included 10 territorial divisions (governed by working plans) and one conservation area *i.e.* Rajaji Tiger Reserve. The units were selected on the basis of Probability Proportional to Size with Replacement (PPSWR) method taking revenue earned as size measure. The 11 audited units (total revenue: ₹ 1,165.84 crore) covered 68.55 *per cent* of the total forest receipts (₹ 1,700.76 crore) during the period 2013-18. Besides, the records of CCF-Working Plan and PCCF-HoFF were also examined. Audit also consulted the experts from Forest Research Institute, Dehradun and Indian Institute of Soil and Water Conservation, Dehradun on various technical matters related with timber and minor minerals and their inputs have been taken into consideration while forming audit opinion on related matters.

Before commencing the performance audit, the audit objectives, criteria and scope were discussed with the Additional Chief Secretary (ACS) of the Forest Department in an entry conference held on 21 February 2018. The findings of the Performance Audit were discussed with the ACS and concerned officers of the Department in an exit conference held on 12 November 2018. Replies (January 2019) of the Government/Department have suitably been included at appropriate places in the report.

²² DFO, Pithoragarh (selected for Pilot Study); Badrinath; Tehri; Tarai West; Tarai East; Tarai Central; Ramnagar; Nainital; Soil Conservation Kalsi; Dehradun and Director, Rajaji Tiger Reserve.

²³ Thirty-five forest divisions, six conservation area, and CF (Western Circle), Van Vardhanik Nainital and Van Vardhanik Haldwani.

2.2.6 Trend of forest receipts

2.2.6.1 Budget estimates vis-à-vis actual

Forest receipt is a major source of non-tax revenue of the State Government. However, there was a decline in collection of forest receipts during 2013-18. Also, share of forest receipts in total non-tax receipts of the State registered a consistent decline since 2014-15. Its share declined from 31.63 per cent in 2014-15 to 17.58 per cent in 2017-18 as given in **Table-2.2.2** below:

Table-2.2.2: Budget Estimate and Actual Forest Receipts

(₹ in crore)

Year	Budget Estimate (BE)	Actual Forest Receipts	Variation excess(+)/ Shortfall(-)	Percentage of variation	Total Non-tax receipts of the State	Percentage of column 3 to column 6
(1)	(2)	(3)	(4=3-2)	(5)	(6)	(7)
2013-14	309.33	362.70	(+) 53.37	(+)17.25	1,316.54	27.55
2014-15	342.06	351.24	(+) 9.18	(+) 2.68	1,110.44	31.63
2015-16	415.86	357.47	(-) 58.39	(-) 14.04	1,219.66	29.31
2016-17	506.75	318.21	(-)188.54	(-) 37.21	1,345.82	23.64
2017-18	500.00	311.14	(-)188.86	(-) 37.77	1,769.53	17.58
Total	2,074.00	1,700.76				

Source: Previous Audit Reports and Budget Documents.

During the period 2013-14 to 2017-18, the Department collected revenue of ₹ 1,700.76 crore against the BE of ₹ 2,074.00 crore. The collected revenue fell short of BE by ₹ 188.54 (37.21 per cent) and ₹ 188.86 crore (37.77 per cent) during 2016-17 and 2017-18 respectively.

Component-wise trends of revenue can be seen in the **Table-2.2.3** below:

Table-2.2.3: Trend of the components of revenue

(₹ in crore)

Source of income	2013-14	2014-15	2015-16	2016-17	2017-18
Royalty of timber from UFDC	154.86	160.08	221.88	200.85	139.87
Income from sale of leesa	66.73	72.72	49.39	39.76	51.23
Other sources	142.21	116.26	87.23	81.60	120.03
Total²⁴	363.80	349.06	358.50	322.21	311.13

Source: Monthly Progress Reports of Revenue of the Department.

From the above table, it can be seen that royalty from timber sharply declined in 2017-18 which can be attributed mainly to expiry of WPs of three divisions where green felling was allowed, as indicated in **paragraph 2.2.7.1(b)**, as well as non-receipt of royalty from UFDC from felling related to development works in all the divisions as indicated in **paragraph 2.2.8.11**. Further, there was a declining trend in revenue received from leesa due to fall in the prices of leesa (leesa prices fell from an approximate ₹ 8,000 per quintal to an approximate ₹ 5,000 per quintal during the audit period) as well as fall in quantities of leesa sold. Fall in receipts from other sources during 2015-17 was a result of reduction²⁵ in transit fee which was revoked in October 2017.

²⁴ There is slight variation in the figures relating to total receipts as shown in **Table-2.2.2** and **Table-2.2.3**.

²⁵ From ₹ 50 per ton (May 2012) to ₹ 15 per ton (December 2014) by the Government.

During exit conference, the Additional Chief Secretary (ACS) - Forest Department stated that the BE were normally fixed on the higher side.

However, audit found that the Department could exceed the BE by addressing systemic deficiencies like delayed preparation of working plans; non-felling of trees; shortfall in extraction of resin; and other shortcomings, as discussed in succeeding paragraphs.

Audit findings

2.2.7 Working Plans

Working Plans (WPs) are prepared for each forest division for a period of ten years by the Forest Department and are approved by the Ministry of Environment, Forest and Climate Change, Government of India (GoI). Forests are managed according to provisions of WPs which contain detailed plans of management of forests and silvicultural²⁶ operations. Silvicultural activities or commercial operations cannot be carried out without approved WPs. As per Paragraph 31 of National Working Plan Code 2014, preparation of one working plan may take two to two-and-half years. As per Paragraph 60 of Code 2014, Regional Additional Principal Chief Conservator of Forests on behalf of MoEF, is required to accord approval of WP within three months. WP should ideally be prepared and got approved before expiry of the existing WP.

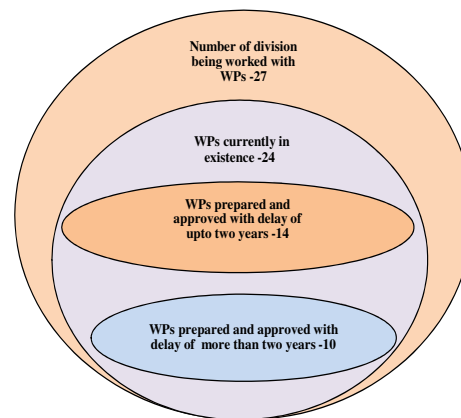
2.2.7.1 Status of Working Plans

(a) Status of WPs in the whole State

There are 27 divisions which are governed by WPs.

However, only 24 WPs were currently in existence. The WPs of remaining three divisions²⁷ stood expired for a period of six to 30 months. The status of all 27 WPs is depicted in the Venn diagram alongside.

In the 10 selected divisions governed by working plans, WPs of five divisions²⁸ had expired during the audit period and the revised WPs were prepared and got approved after a gap of 13 to 42 months. In absence of WPs, silvicultural operations of these five divisions were seriously affected and revenue of ₹ 75.37 crore was forgone in two divisions²⁹ where felling of trees was halted in absence of WPs as discussed in *paragraph 2.2.8.1*. In



²⁶ Silviculture is the art and science of controlling the establishment, growth, composition and quality of forest vegetations for the full range of forest resource objectives.

²⁷ Tones (expired on 30.09.2015), Almora (expired on 30.09.2016) and Chakrata (expired on 30.09.2017).

²⁸ Badrinath, Tehri, Tarai East, Tarai West and Tarai Central forest division.

²⁹ Tarai East and Tarai Central (where WPs expired during the audit period).

remaining five³⁰ selected divisions, the WPs were prepared and got approved after³¹ 16 to 26 months of expiry of earlier WPs. However, these divisions had valid WPs during the audit period.

(b) Status in divisions selected for audit

The stage-wise delay in preparation of WPs of the five divisions where WPs had expired during the audit period is depicted in the **Table-2.2.4** below:

Table-2.2.4: Details of expiry/approval of the WPs

Division	Date of expiry of working plan	Date of appointment of WPO	Date of submission of plan to GoI	Delay in submitting WPs to GoI ³²	Date of approval of Plan by GoI	Total Gap in Working Plan
Badrinath	30.09.13	30.11.11	30.10.14	13 months	11.04.17	42 months
Tehri	30.09.13	11.11.11	18.10.14	13 months	31.03.17	42 months
Tarai West	30.09.15	19.12.12	12.04.16	06 months	14.03.17	17 months
Tarai Central	30.09.15	19.12.12	26.10.15	01 months	14.03.17	17 months
Tarai East	30.09.16	25.02.14	28.08.17	11 months	03.11.17	13 months

Source: Information collected from the Department.

From the above table, it can be seen that the WPs of all the five divisions were submitted to the GoI after one to 13 months since expiry of the existing WPs. These WPs were approved by GoI with further delays as the Department took one to five months for addressing the queries raised by the GoI. The Department was able to get the WPs of these five divisions approved after a gap of 13 to 42 months since the expiry of earlier WPs. The CCF-WP is responsible for ensuring that all the forests are worked under approved working plans and is directly involved in all the matters of preparation of working plans. Despite having a dedicated office for ensuring preparation of WPs, the Department was not able to prepare any of the existing 24 WPs in time.

The Government accepted (January 2019) the fact of delay in submission and approval of WPs and stated that it had made a strategy to complete the work of preparation of pending WPs in a timely manner in future.

2.2.7.2 Non-constitution of Working Plan Units according to National Working Plan Code

National Working Plan Code (NWPC), 2014 provides for constitution of permanent Working Plan Units (WPU) for preparation of working plans. As per paragraph 29 of NWPC 2014, a WPU at the field level should be headed by a Working Plan Officer (WPO) of the rank of Conservator of Forest who should be assisted by a minimum of two ACFs, four FROs, 12 Foresters and one subject matter expert in each of the specialised field such as remote sensing, biodiversity assessment, socio-economic analysis, taxonomy, *etc.* Further, paragraph 30 specifies creation of adequate posts for the WPU. Otherwise, the subject matter experts and staff are to be engaged on contract basis.

³⁰ Pithoragarh, Soil Conservation Kalsi, Dehradun, Ramnagar and Nainital.

³¹ Ramnagar and Nainital Divisions-16 months, Pithoragarh-21 months, Soil Conservation Division Kalsi- 25 months and Dehradun-26 months.

³² Days more than twenty-five was taken as one month.

Irrespective of the circumstances, the responsibility of WP preparation cannot be transferred to a territorial DFO/CF of the forest division.

Moreover, Rule 31 of NWPC specifies that generally, one WPU may undertake the work of preparation/review of WP of four or five forest divisions in a cycle of 10 years. Hence, at least six WPUs would be required for preparation/revision of all 27 WPs in the State. However, no WPU was established by the Department even after lapse of four years of the Code coming into existence *i.e.* April 2014. In absence of WPUs, the work of preparation of WPs was continued by WPOs appointed for the purpose as seen in the case of five selected divisions where working plans were prepared during the audit period. From November 2017 onwards, the responsibility of preparing working plans of nine divisions³³ was delegated to territorial CFs which was in violation of provisions of the Code. Further, each WPO (territorial CF) was assisted by one FRO and four Foresters only which was against the above-mentioned norms.

CCF WP attributed non-setting up of dedicated WPUs to shortage of manpower.

The Government accepted (January 2019) the audit observation and stated that necessary action was being taken to constitute four WPUs as per NWPC, 2014.

2.2.7.3 Harvesting of forest produces in violation of guidelines

Ruling (December 1996) of the Supreme Court of India in the case of T N Godavarman Thirumulkpad Vs Union of India & others and Paragraph 92 of NWPC, 2004 prohibit commercial harvesting of any forest produce unless it has been carried out under the prescriptions of a WP approved by the Ministry of Environment and Forests, GoI. Further, paragraph 33 of the NWPC, 2014 also highlighted the same point by stating that PCCF should ensure that all forest workings are carried out as per approved WP prescriptions.

Audit scrutiny in Badrinath and Tehri forest divisions (two of the resin producing divisions where WPs expired during audit period) revealed that the WPs of these divisions had expired on 30 September 2013 and revised WPs were approved by GoI on 11 April 2017 and 31 March 2017 respectively. Meanwhile, the Principal Secretary permitted (July 2015) extraction of *leesa* in these divisions, despite the fact that CCF-WP and MoEF, GoI had refused (February 2015 and June 2014) to grant such permission due to non-existence of approved working plan. The two divisions extracted 38,476.60 quintal³⁴ *leesa* during 2014 to 2016 when there was no working plan. Besides, DFO Tarai West carried out felling of trees in 346.84 hectares in 2015-16 before approval of the WP of the division by the GoI. Such harvesting of forest produce was in

³³ Tons, Almora, Chakrata, Nainital, Ramnagar, Dehradun, Soil Conservation Kalsi, Bageshwar and Civil Soyam Division Almora.

³⁴ Badrinath: 7,200.67 quintal in 2014 crop, 8,040.74 quintal in 2015 crop and 8,714.93 quintal in 2016 crop; Tehri: 3,320.69 quintal in 2014 crop, 5,586.39 quintal in 2015 crop and 5,613.18 quintal in 2016 crop.

violation of the Supreme Court ruling and provisions of Working Plan Code 2004 and 2014.

The Government stated (January 2019) that *leesa* was extracted in the same coupes³⁵ which were included in the final WPs and which were eventually approved by GoI. The Department further stated that felling of old eucalyptus trees in Tarai West division was carried out as per directions (April 2015) of the Principal Secretary.

2.2.8 Timber

Revenue from timber is received, in the form of royalty, by the Department from the Uttarakhand Forest Development Corporation (UFDC) which is the sole entity authorised to fell and sell timber in Uttarakhand. The Department marks trees for felling every year and the lots³⁶ of marked trees are handed over to the UFDC for felling operations. The Department receives royalty from UFDC in three installments, first in the month of March of the financial year, second and third in the months of June and September of the next financial year.

Felling operations can be divided in four broad categories as shown in **Table-2.2.5** below:

Table-2.2.5: Felling operations carried out in divisions

Type of felling		Felling operations involved	No. of divisions covered
1. Green Felling (such felling is carried out as per provisions of WPs in areas not more than 1,000 metres above sea level)	Clear Felling	Felling of trees and extraction of roots	Three divisions <i>i.e.</i> Tarai East, Tarai Central and Tarai West
	Canopy Opening/ Thinning	Removal of trees to allow sunlight/ create space	Four divisions <i>i.e.</i> Tarai East, Ramnagar, Dehradun and Soil Conservation Kalsi
2. Development works related felling		Felling due to construction of roads, <i>etc.</i>	All 11 selected divisions
3. Felling of dead, diseased and uprooted trees as provided in WPs		Dead, diseased and uprooted trees are harvested in annual coupes (areas identified for felling) as provided in working plan	Ten selected divisions (excluding Rajaji Tiger Reserve)
4. Felling of dead, diseased and uprooted trees by approval of specialist committee		Dead, diseased and uprooted trees are harvested on recommendations of a specialist committee	Ten selected divisions (excluding Rajaji Tiger Reserve)

The first type of felling *i.e.* green felling is the major source of revenue from timber as coupes/areas for such felling in each year are identified in WPs and yields are also estimated in the WPs. Audit findings relating to revenue from timber are discussed below:

2.2.8.1 Non-realisation of revenue due to delayed submission and approval of working plans

All silvicultural operations are carried out in forests as per schedule prescribed in the WPs. Hence, any time-gap between expiry of earlier WP and new WP of a division

³⁵ Coupes are areas specifically demarcated for extracting forest produce.

³⁶ Lot is a list of trees marked by the Department for felling. A Coupe can contain one or more lots as per convenience.

causes cessation of silvicultural operations which not only affects health of the forests but also hampers the revenue collection of the Department. The process of submission of WPs to the GoI and approval of these WPs, therefore, should ideally be completed before expiry of existing WPs.

WPs of Tarai Central and Tarai East divisions were submitted and got approved after expiry of existing WPs which resulted in non-realisation of royalty of ₹ 75.37 crore, as shown in **Table-2.2.6** below:

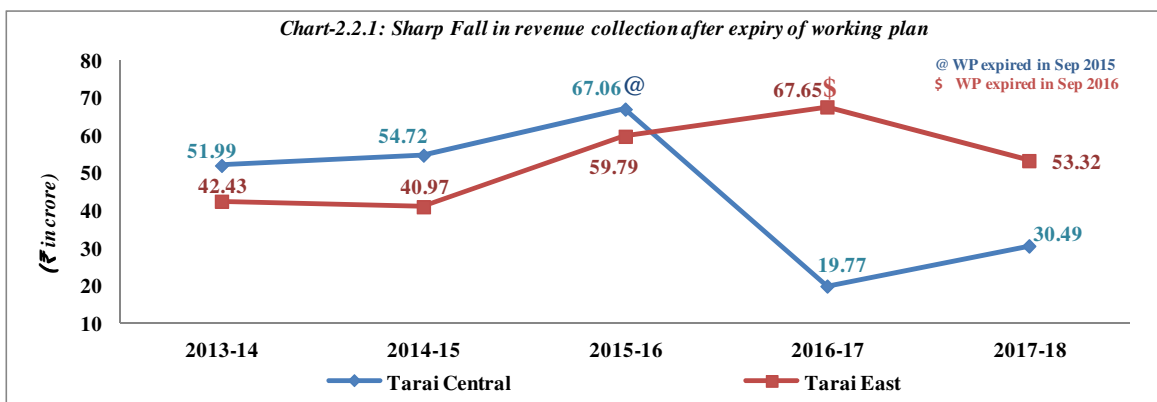
Table-2.2.6: Non-realisation of revenue due to delayed submission/approval of the WPs

Division	Date of expiry of working plan	Date of submission of plan to GoI	Date of approval of Plan by GoI	Total Gap in Working Plan	Timber remaining unfelled due to gap in WPs (cum)	Royalty remaining un-realised ³⁷ (₹ in crore)
Tarai Central	30.09.15	26.10.15	14.03.17	17 months	64,954.81	42.42
Tarai East	30.09.16	28.08.17	03.11.17	13 months	10,751.00	32.95
Total					75,705.81	75.37

Source: Information collected from the Department.

Note: In remaining three divisions, where working plan expired during audit period, resin was extracted (Badrinath and Tehri divisions) and timber was felled (Tarai West division) when WPs were not in existence.

Impact of non-felling due to time-gap in WPs can be seen in the **Chart-2.2.1** below which indicates sharp fall in revenue from timber after the expiry of WPs.



During exit conference and in its reply (December 2018), the Government stated that trees could not be felled due to delay in approval of WPs and added that required felling would be completed after obtaining approval of GoI.

2.2.8.2 Non-realisation of royalty due to non-conducting of canopy opening operation in Sal Forest

Sal forests in Uttarakhand are facing a severe problem of regeneration due to very poor survival of naturally grown saplings. As Sal requires long hours of sunlight, its saplings get suppressed if there is insufficient sunlight due to dense canopy (cover) of matured and over matured Sal trees. This is why working plans approved by GoI provide for canopy

³⁷ Data of species-wise timber (Sal, Sain and jamun in the case of Tarai East division and poplar, sagaun and eucalyptus in the case of Tarai Central Division) remaining unfelled has been taken from the WPs and the estimated royalty has been calculated as per existing royalty rates applicable in the divisions.

opening³⁸ operations by felling matured and over matured *Sal* trees with exploitable³⁹ diameter. The State Government had also issued directions (2001) to the Department to start felling of matured green trees with exploitable diameter so as to avoid the negative growth and extinction of *Sal* forests. Besides, one-third of the royalty received from such felling was to be utilised in Assisted Natural Regeneration (ANR) activities (activities like burning of waste leaves and soil working for promoting seed germination; cutting shrubs for freeing space for saplings; fencing to avoid trampling of *Sal* saplings by people and cattle; and fire protection) for the purpose of promoting regeneration. As per directions of GoI and State Government, canopy opening operations should be conducted after approval of annual action plan (AAP) by the GoI and site specific plans (SSPs) having detailed scheme for ANR operations by the PCCF.

Canopy opening operation or regeneration felling was not conducted in any of the four divisions (Soil Conservation Kalsi, Dehradun and Ramnagar during 2013-18; Tarai East during 2013-16⁴⁰) having *Sal* forests although the same was specifically prescribed in their working plans. It was further noticed that the divisions did not get AAPs or SSPs for canopy opening approved in any of these years (Soil Conservation Kalsi, Dehradun and Ramnagar during 2013-18; Tarai East during 2013-16) and no instructions were found issued in this regard by CCF-WP who was informed each year of the fact that canopy opening operations were not conducted in these divisions. Due to non-conducting of this essential silvicultural operation, the Divisions could not realise revenue of ₹ 330.12 crore on estimated timber production of 1.50 lakh cum, as detailed in **Appendix-2.2.1**.

The Government stated (January 2019) that canopy opening for *Sal* regeneration was a purely silvicultural work and not designed for revenue generation. The Government further stated that annual coupes were not fixed in WP of Ramnagar and in the case of Dehradun and Kalsi, proposals for ANR activities were not sent to GoI due to felling of diseased trees; lack of regeneration in *Sal* trees; and biotic pressures in the forest areas.

The reply of the Government is not acceptable as canopy opening is prescribed in WPs after proper enumeration and survey by Working Plan Officers (WPOs) who fix annual coupes or 10 year targets of canopy opening and regeneration after considering and analysing all the relevant facts like status of regeneration, biotic and abiotic pressure on the forests and past management of these forests, *etc.* Further, the specific objective of canopy opening is to provide space and sunlight for small suppressed trees/saplings and removal of diseased trees was not a substitute for canopy opening.

During exit conference, the ACS directed the Department to ensure that canopy opening operations were conducted in divisions as per provisions of working plans.

³⁸ Canopy opening involves selected felling of tall trees so that top canopy (cover) of forest is partially opened up and small suppressed trees/saplings get access to sunlight.

³⁹ Exploitable diameter of *Sal* was fixed at 45 centimetre (cm) and above in Dehradun and Soil Conservation, Kalsi divisions and 50 cm and above in Tarai East and Ramnagar divisions.

⁴⁰ The WP of Tarai East expired thereafter.

2.2.8.3 *Non-realisation of royalty due to non-felling of trees in absence of marking operations*

Coupes identified in the WPs for felling in a particular year are marked and allotted to UFDC for felling. The UFDC carries out felling operations and pays royalty to the Department at prescribed rates. Working Plan of each division has area/species wise detail of trees required to be felled each year. Specific marks are then affixed on trees eligible for felling for facilitating identification so that only prescribed trees are felled by the UFDC. This process is called marking operation. After marking operation is complete, the marked trees are allotted to UFDC for felling.

In two (Ramnagar and Tarai Central) of the six forest divisions, where green felling was allowed as per working plans, marking operations could not be undertaken in 83.41 hectare area of three coupes in Tarai Central (2013-14) and 1,129.19 hectare area of four coupes in Ramnagar (2013-18) forest divisions due to lack of budget. This led to non-felling of trees and non-production of an estimated timber of 10,017.77 cum on which the Department could not realise royalty of ₹ 27.90 crore as detailed in *Appendix-2.2.2*. It was further observed that the funds for carrying out marking operations were not made available to the divisions, despite the fact that DFO Ramnagar had raised periodical demands with the PCCF while DFO Tarai Central had raised the demand through annual budget for carrying out the marking operations.

During exit conference, the ACS directed the Department to ensure availability of sufficient budget with the divisions for carrying out marking operations.

2.2.8.4 *Non-realisation of royalty due to non-felling of trees by UFDC*

UFDC is the sole authority responsible for felling and selling timber of forests in the State. Hence, it is required to fell every lot marked by the Department for felling.

Audit noticed that in two⁴¹ of the six forest divisions⁴², where green felling was allowed as per working plans, UFDC did not carry out felling operations in 20 lots of DFO Ramnagar and 15 lots of DFO Tarai Central allotted during 2013-18 as shown in *Appendix-2.2.3*.

Audit noticed that the UFDC returned the lots citing various reasons like vague marking, violation of provisions of working plan in marking, and overload of work, *etc.* The Ramnagar division countered contentions of the UFDC and informed CF about non-felling of trees. On the other hand, DFO Tarai East Division raised the matter with the UFDC but still the instances of non-felling continued. This non-felling resulted in non-production of 40,957.68 cum of timber on which department could not realise royalty of ₹ 14.28 crore.

⁴¹ DFO, Tarai Central, DFO, Ramnagar.

⁴² DFO, Tarai Central; DFO, Ramnagar; DFO, Tarai West; DFO, Tarai East; DFO, Dehradun and DFO, Soil Conservation Kalsi.

The Government stated (January 2019) that all 15 lots of Tarai Central forest division were re-allotted in 2018-19 to the UFDC for felling. With regard to 20 lots of Ramnagar forest division, it was stated that one lot had been felled; one lot was being felled; one lot was being re-marked; and the remaining lots were re-allotted to UFDC during 2018-19.

During exit conference, PCCF (HoFF) assured quick disposal of unfelled timber.

2.2.8.5 Loss due to erroneous fixation of royalty

Uttar Pradesh Government issued (September 1983) instructions for fixing royalty of trees felled by the erstwhile Uttar Pradesh Van Nigam. For fixing rate of royalty of the current year of any particular species, the average sale price of preceding two years is taken into consideration for working out the *per cent* increase/decrease in average sale prices. This increase/decrease is then added to the royalty of the preceding year to arrive at the current year's royalty rate. Further, in 1994, the Government decided that royalty of eucalyptus timber to be paid to the Forest Department should be *55 per cent* of the average sale price received by the Uttar Pradesh Forest Development Corporation.

The same method for fixation of royalty of eucalyptus continued even after creation of UFDC consequent upon creation of State of Uttarakhand in 2000. The UFDC sells eucalyptus timber to two paper mills (one situated in the State in Lalkuan and the other situated in Saharanpur of Uttar Pradesh) on negotiation basis, as was the practice in Uttar Pradesh before creation of Uttarakhand; and to other purchasers on auction basis.

Audit observed that the Department did not fix royalty of eucalyptus, allotted to UFDC, @ *55 per cent* of the average rates received by the UFDC. Instead, on the proposal of UFDC, it fixed royalty @ of *55 per cent* of rate on which UFDC sold timber to the two paper mills as shown in the **Table-2.2.7** below:

Table-2.2.7: Details of eucalyptus sold during the period 2013-18

Year	Sale to paper mills (in cum)	Rate Received by the UFDC from paper mills (₹ per cum)	Royalty fixed for the Department (₹ per cum)	Total Sale by UFDC (in cum)	Amount received by UFDC on total sale (in ₹)	Average rate received in total sale (₹ per cum)	Royalty required to be fixed for Department (₹ per cum)	Difference in rates (₹ per cum)	Allotment of eucalyptus to the UFDC by the Department (in cum)	Loss of revenue (in ₹)
(1)	(2)	(3)	(4) =55% of (3)	(5)	(6)	(7)=(6)/(5)	(8) =55% of (7)	(9) =(8) - (4)	(10)	(11) = (9)*(10)
2013-14	4,624	3,330.28	1,832	39,839.43	25,98,36,370	6,522.09	3,587	1,755	30,179	5,29,64,145
2014-15	12,775	3,332.64	1,833	38,724.17	23,39,91,336	6,042.51	3,323	1,490	51,265	7,63,84,850
2015-16	13,572	3,332.64	1,833	72,838.83	40,20,86,819	5,520.23	3,036	1,203	75,943	9,13,59,429
2016-17	5,514	3,332.64	1,833	67,933.43	39,00,82,628	5,742.13	3,158	1,325	24,121	3,19,60,325
2017-18	0.00	3,332.64	1,833	35,646.34	19,65,37,304	5,513.53	3,032	1,199	49,418	5,92,52,182
<i>Note: For 2017-18, rates have been decided for paper mills but timber has not been taken by the Mills yet.</i>									Total	31,19,20,931 say ₹31.19 crore

Source: Information submitted by UFDC to the royalty fixation committee and to audit.

Average rates received by UFDC from paper mills were much lower than average rates received by the UFDC in total sale. However, the royalty fixation committee⁴³ did not fix royalty based on average rates leading to a loss of ₹ 31.19 crore to the Department during 2013-18.

The Government stated (January 2019) that the royalty fixation committee would review the matter raised by audit.

2.2.8.6 Non-realisation of royalty on fuel woods and tree roots

(a) During felling of trees of any species, small branches are invariably produced. These branches are classified as 'fuel wood'⁴⁴. As per instructions of the Department (August 1998), royalty was to be recovered at scheduled rates by the Department on the quantity of 'fuel wood' which was auctioned by the Corporation.

However, audit found that the Department had not fixed royalty rates for 'fuel wood' auctioned by the UFDC during the audit period. The UFDC earned ₹ 13.94 crore⁴⁵ by auctioning 'fuel wood' during 2013-18 but the Department did not get any share of this amount.

Whole trees of some native species like *banz*, *kharsu*, *mauru*, *tiloj*, *burans*, etc. are classified as 'fuel wood category trees'. For these trees, royalty is paid to the Department on the basis of whole volume allotted to the UFDC. DFO Nainital was not paid royalty for 927.91 cum timber of 'fuelwood category trees' during 2013-18 by the UFDC. The DFO did not make any effort for receiving royalty on these species although the UFDC informed the Division each year about the quantum of 'fuelwood category trees' felled. The Department, therefore, suffered a loss of ₹ 11.17 lakh during the above period.

(b) In the case of normal felling, the trees are felled above 15 centimeters from the ground and roots are left to check soil erosion. However, in the case of clear felling, the trees are felled and their roots are uprooted. Hence, in the case of clear felling, the UFDC auctions roots in addition to normal commercial timber.

However, there was no mechanism in the Department to levy royalty on tree roots. As a result, the Department did not get any share out of ₹ 42.17 crore⁴⁶ which the UFDC garnered from sale of tree roots during 2013-18.

The Government assured (January 2019) that a policy would be framed regarding levying royalty on 'fuel wood' and roots. With regard to non-recovery of royalty of 'fuel wood category trees' the Government stated (January 2019), that necessary action was being taken to address the issue pointed out by audit.

⁴³ Consisting of PCCF-HoFF as president; CCF Working Plan as member secretary; Managing Director-UFDC, zonal CCFs of Garhwal and Kumaun and some other officers of the Department as members.

⁴⁴ Fuel wood comprises timber with diameter less than 15 cm in case of eucalyptus, less than 21 cm in case of teak and less than 30 cm (in case of other species) produced along with round timber.

⁴⁵ 2013-14: ₹ 3.54 crore, 2014-15: ₹ 2.91 crore, 2015-16: ₹ 2.64 crore, 2016-17: ₹ 3.82 crore and 2017-18: ₹ 1.03 crore.

⁴⁶ 2013-14: ₹ 8.98 crore, 2014-15: ₹ 7.94 crore, 2015-16: ₹ 9.52 crore, 2016-17: ₹ 11.25 crore and 2017-18: ₹ 4.48 crore.

2.2.8.7 Production vis-à-vis estimate

The Department classifies trees into sound, fit and unfit category as per parameters (as detailed in **Appendix-2.2.4 A**) of soundness of bole as described in its circular no. 124/2-7-1 dated 19 November 1956. Estimated timber production is worked out using a volume factor table developed by Forest Research Institute, Dehradun. This table assigns different volume factors for each tree species and for different girths within each species. The process can be seen the **Table-2.2.8** below:

Table-2.2.8: Estimation of Volume of Trees

Type of tree	Volume
Sound tree	Full volume factor as given in volume factor table for that girth and species
Fit tree	2/3 of volume factor as given in volume factor table for that girth and species
Unfit tree	1/3 of volume factor as given in volume factor table for that girth and species

The Department receives royalty of the timber allotted to UFDC on the basis of estimated production.

Audit examined data, received from UFDC, of timber produced during 2013-17⁴⁷ with regard to six divisions (Tarai East, Tarai Central, Tarai West, Dehradun, Kalsi and Ramnagar) where green felling was allowed. It was noticed that in these divisions, there was excess production in most of the lots as can be seen in the **Table-2.2.9** below:

Table-2.2.9: Details of excess production vis-à-vis estimates in five divisions during 2013-17

	Ramnagar	Dehradun	Kalsi	Tarai Central	Tarai East	Tarai West	Total
Total No. of lots	209	834	421	492	391	182	2,529
Lots with production below estimates	4	56	42	35	29	22	166
Lots with production above estimates (in per cent)	205 (98)	778 (93)	379 (90)	457 (92)	362 (92)	160 (87)	2,341 (92)
Highest value of production in a single lot (in percentage)	1,299	1,707	1,219	1,089	1,312	685	-
Total Excess production in cum during 2013-17	10,663	14,781	5,243	44,231	62,945	1913	1,39,776
Estimated value of the excess production (₹ in crore)	6.77	7.64	2.77	28.67	40.29	1.15	87.29

Source: Information collected from the UFDC.

As can be seen from the table, 92 per cent lots felled in six divisions had produced excess volume of timber than estimated. However, due to practice of royalty being paid on the basis of estimates, the Department was not able to claim royalty of ₹ 87.29 crore on the excess production (1,39,776 cum in six divisions during 2013-17) of timber from the UFDC, as detailed in **Appendix-2.2.4 B**. In view of large-scale variation between the estimated and actual production, the Department may consider levying royalty on the actual production in case the actual production exceeds the estimated production beyond a permissible limit, which it can decide. Besides, such actual production may be recorded

⁴⁷ Data for 2017-18 for maximum no. of lots was not provided by the UFDC. However, to maintain uniformity, data from 2013-14 to 2016-17 was considered.

through joint inspection by the Department and the UFDC which is the practice in some other States like Madhya Pradesh.

During exit conference, the PCCF-HoFF assured that the issue would be considered. The Government also stated (January 2019) that a decision would be taken on whether the royalty should be levied on estimated production or actual production after discussion with the Government as it was a policy matter.

2.2.8.8 Loss of royalty due to incorrect calculation of volume

The Department issued instructions (April 1989) stating that trees in the hill areas are to be classified into only two categories- fit and unfit, in place of the earlier three categories. For a fit tree, entire volume factor as prescribed by the Department for the particular species was to be taken for working out estimated production and estimated production of an unfit tree was to be worked out taking half of the prescribed volume factor.

Out of total 11 selected divisions, four (Pithoragarh, Tehri, Badrinath and Nainital) divisions are hill divisions. Audit noticed that the formula was followed correctly in three divisions (Pithoragarh, Badrinath and Nainital) during 2013-14 to 2017-18. In Tehri Forest Division the above prescribed formula was followed from 2013-14 to 2014-15. During 2015-18 the Division changed the method of volume calculation as given in **Table-2.2.10** below:

Table-2.2.10: Estimation of Volume of Trees in Hill Areas

Type	Prescribed volume	Changed Volume	Short calculation
Fit tree	Full volume as given in volume factor table for that girth and species	2/3 volume as given in volume table for that girth and species	1/3 volume (1-2/3)
Unfit tree	Half of volume factor as given in the table for that girth and species	1/3 volume as given in volume table for that girth and species	1/6 volume (1/2-1/3)

As can be seen from the table, this resulted in short calculation of production of timber by 1/3 part and 1/6 part in case of fit and unfit trees respectively. It led to short estimation of allotted timber by 4,610.94 cum during 2015-18 and consequent loss of royalty of ₹ 1.01 crore.

The DFO, Tehri Division stated that the method of estimation was changed as per request of UFDC.

During exit conference, the ACS directed the Department to ensure that a uniform method as per existing instructions of the Department is applied by all hill divisions to calculate the volume of timber.

2.2.8.9 Loss of revenue on timber of civil forests

Royalty of timber felled from reserved forests belongs entirely to Forest Department. On the other hand, royalty for the timber of civil⁴⁸ forests is divided between the Department, the District Magistrate and Zila Panchayat. Government order (June 1968) in this regard

⁴⁸ These forests do not come under reserve forest and are under the control of Revenue Department.

stipulates deduction of administrative charges @10 *per cent* of royalty received for timber of civil forests by the Forest Department. The remaining royalty is to be divided by the Department in the ratio of 40:40:20 between itself (Forest Department), District Magistrate and Zila Panchayat.

Audit noticed that out of total royalty of ₹ 20.38 lakh for timber of civil forest in Badrinath, the DFO Badrinath received only ₹ 2.04 lakh (10 *per cent*). The remaining 90 *per cent* (₹ 18.34 lakh) royalty was disbursed by the UFDC directly to the District Magistrate/Zila Panchayat without providing 40 *per cent* share to the Forest Department. However, the divisional authorities did not raise the matter with the UFDC despite the fact that it was in violation of the existing practice/government order and affected revenue interests of the Department. The Department, therefore, suffered a loss of ₹ 7.34 lakh⁴⁹ during 2013-14 to 2015-16.

The Government stated (January 2019) that the issue would be reconciled in the next meeting of royalty fixation committee.

2.2.8.10 Disposal of diseased, dead and uprooted trees

Diseased, dead and uprooted trees are disposed off by the Department on the recommendations of a specialist committee⁵⁰. Removal of such timber is an essential silvicultural operation and also a good source of revenue for the Department. Government of Uttarakhand directed (February 2015) the Department to conduct quarterly meetings of the above committee compulsorily so that the dead, diseased and uprooted trees are not left un-disposed. The PCCF was required to submit half yearly reports to the Government of Uttarakhand regarding the compliance of this direction.

Audit noticed that in six of the ten⁵¹ divisions only 14 meetings⁵², against the required 72⁵³, were conducted during 2015-16 to 2017-18. In these meetings, 30,971 trees were recommended for felling and were disposed off. No meeting was held in the remaining four divisions⁵⁴. The Department was, therefore, deprived of potential revenue through disposal of dead and uprooted trees of reserved forests due to non-holding of meetings of the committee at regular intervals. Besides, the PCCF did not submit any half yearly reports to the Government on the compliance of its order.

The UFDC as well as the Department had time and again stressed that undisposed dead and uprooted trees were abundant in the forests and, therefore, the meetings were required to be conducted regularly in a time bound manner. Despite this, there was shortfall in the number of meetings held during the audit period.

⁴⁹ ₹ 18.34 lakh x 40 *per cent* = ₹ 7.336 lakh.

⁵⁰ The committee consists of DFO, a working plan officer and a member from any local organisational working in the interest of environment.

⁵¹ In Rajaji Tiger Reserve felling of diseased, dead and uprooted trees is not carried out.

⁵² Dehradun-01, Pithoragarh-01, Nainital-01, Tehri-05, Badrinath-03, Kalsi-03.

⁵³ 6 divisions X 4 meetings X 3 year.

⁵⁴ DFO, Tarai East, Tarai West, Tarai Central and Ramnagar.

During exit conference, PCCF-HoFF assured that disposal of diseased, dead and uprooted trees would be made in a regular and timely manner.

2.2.8.11 Blockade of royalty of trees felled during development works

Royalty of timber allotted to UFDC in a particular year is paid in March of that financial year (1st installment), June and September of next financial year (2nd and 3rd installment). UFDC is liable to pay royalty on lots allotted and accepted. The guidelines in this regard have been framed by the Department and the same guidelines were followed by the UFDC till 2015-16.

UFDC unilaterally decided (September 2016) to change this practice relating to timber lots allotted to it by the Department for felling relating to development works like construction of roads. The UFDC issued instructions (September 2016) that payment of royalty for such timber would be made after sale of timber and deduction of administrative charges @ 20 per cent of sale value. This change was introduced after its earlier proposal (December 2015) to make timber of development works related lots royalty-free was rejected by the Department.

In nine divisions, 136 lots⁵⁵ containing 14,294.88 cum of timber, related with development works, were accepted by UFDC during 2016-17 and 2017-18. However, payment of royalty amounting to ₹ 7.11 crore for this timber was withheld by UFDC. Although due dates for the installments of royalty had lapsed, the Department did not receive royalty of ₹ 7.11 crore from UFDC.

Further, there was lack of monitoring by the Department as evident from the fact that the Department was not even aware of the quantum of sale of timber from the allotted lots. Further, Department did not contest the unilateral change of royalty payment schedule by UFDC.

The Government stated (January 2019) that the issue would be decided in the next meeting of royalty fixation committee.

During exit conference, the PCCF-HoFF assured that proper action would be taken in the matter after due deliberation.

2.2.8.12 Loss due to illegal felling

Felling and removal of trees from a forest area by private individuals is a punishable forest offence under Section 26 of the Indian Forest Act, 1927. To prevent such illegal removal of the forest produce, enforcement activities like regular patrolling of forest areas, erection of forest check gates at the vital points and availability of sufficient manpower at beats are necessary.

⁵⁵ Pithoragarh- 18 lots with 447.92 cum; Badrinath- 42 lots with 1,875.78 cum; Tehri- 13 lots with 657.84 cum; Nainital- 16 lots with 1,606.24 cum; Tarai East- 03 lots with 141.94 cum; Tarai West- 04 lots with 845.19 cum; Tarai Central- 28 lots with 6,998.02 cum, Ramnagar- 01 lot with 265.85 cum and Dehradun- 11 lots with 1,456.10 cum.

Examination of offence case records in the 10 out of 11 selected divisions revealed status of illegal felling of timber as detailed in the **Table-2.2.11** below:

Table-2.2.11: Details of illegal felling in 10 divisions

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Volume of illegally felled timber (<i>in cum</i>)	519	451	441	379	319	2,109
Volume of illegally felled timber comprehended (<i>in cum</i>)	321	319	303	288	206	1,437
Volume of illegally felled timber remaining unrecovered (<i>in cum</i>)	198	132	138	91	113	672
Value of undetected timber (<i>₹ in lakh</i>)	17.87	11.32	7.73	8.55	12.40	57.87

Source: Information collected from the Department.

From the above table, it can be seen that 2,109 cum timber was illegally felled during 2013-18. Of this, 672 cum timber valued at ₹ 57.87 lakh remained unrecovered as the Department could not apprehend the offenders (**Appendix-2.2.5**). Although the incidences of illegal felling continued year by year, the declining trend bodes good for the Department as well as the environment.

The Government stated (January 2019) that there was declining trend in illegal felling due to effective measures taken by the Department.

2.2.9 Leesa

Resin *i.e. leesa* in local parlance is a highly viscous and inflammable substance which is secreted from *Chir* pine trees. Resin is secreted when bark of tree is removed from a portion of the trunk an incision is made. Then one small groove (2 mm depth) is made on each side of the incision every week. Resin contains two organic compounds-turpentine oil and rosin, and is widely used in pharmaceutical preparations, cosmetics, perfumes, paper industry, adhesives, paint, varnish and polish, *etc.* In Uttarakhand, *leesa* is extracted from *Chir* pine trees during March to October and is auctioned in Nainital and Rishikesh depots by the Forest Department. Out of the selected 11 divisions, only three divisions (Badrinath, Tehri and Nainital) have *Chir* pine forests producing *leesa*. Audit noticed the following deficiencies in the management of production and sale of *leesa*:

2.2.9.1 Loss due to short-production

The time schedule for *leesa* production stipulates issue of work orders by December end so that all the intermediate procedures can be completed in time and *leesa* extraction starts from March. *Leesa* is produced from trees during the eight-month period (March to October), after cold weather which is not conducive for *leesa* production sets in. As such, this month window available for extraction is crucial for production of *leesa*. The state level committee fixed (July 2014) standard of production as 3.50 quintal per 100 wounds in a season (March-October) for Badrinath and Tehri. In Nainital, the target of production was fixed as 4.30 quintal per 100 wounds in a season.

Audit noticed that in two (Badrinath and Tehri) out of three *leesa* producing divisions, the work orders for extraction of *leesa* were issued after delay of three to eight months during 2014 to 2017. The effective window (March to October) available for production of *leesa* in these divisions, therefore, got curtailed by one to six months which led to

shortfall in production of *leesa* and resulted in loss of revenue of ₹ 2.39 crore to the Department, as shown in **Appendix 2.2.6**. In Nainital, no short production was noticed.

The Government accepted (January 2019) the fact of short production in Tehri. In case of Badrinath division, the Government stated that production was as per erstwhile target of 3.0 kg per wound. The reply is not acceptable as the state level committee had revised the norm of production of *leesa* from 3 to 3.5 kg per wound in 2014 itself.

2.2.9.2 Loss due to non-inclusion of eligible pine trees into new working plan

Coupes of trees eligible for *leesa* production are identified during preparation of the WPs. The divisions extract *leesa* from the identified trees during WP period. *Chir* pine trees with minimum diameter of 40 cm are eligible for extraction of *leesa* and an eligible tree produces *leesa* for 25 years.

WP of Badrinath Division expired on 30 September 2013. The working plan officer, after partial enumeration, discussions with the field staff and field inspections, included 2,87,500 new eligible pine trees in the Second Preliminary Working Plan Report (SPWPR). CCF-WP also, in his letter (May 2016) to the regional office of MoEF-GoI, justified inclusion of the above number of eligible pine trees in the SPWPR and this was accepted by GoI. However, the new WP (April 2017) included only 1,30,500 new pine trees. The Department, therefore, did not include 1,57,000 new eligible trees in the WP leading to a recurring loss of ₹ 2.47 crore⁵⁶ per year.

The Government stated (January 2019) that the number of pine trees was decreased after total enumeration. However, the reply is not acceptable as there was no documentation in the approved WP stating that total enumeration had been done. CCF-WP had accepted that the number of pine trees was reduced after verbal discussion between CCF-WP and WPO.

2.2.9.3 Loss due to poor storage facilities of leesa

Leesa is a highly inflammable substance which oozes out of cracks in containers when exposed to hot weather conditions. *Leesa* leaked out of tins is stored in pits and sold separately as lots of 'leaked *leesa*'. However, leaked *leesa* fetches less rates compared to normal *leesa*. Due to this, the Government issued (April 2003) instructions for erection of proper shades for storage of *leesa* to minimise the impact of weather. Also, with the passage of time, the quality of *leesa* deteriorates and such *leesa* fetches lower prices.

A joint inspection (May 2018) of Sultannagari *leesa* depot of Nainital Forest Division revealed that out of 20 platforms, only five platforms had shades. *Leesa* stored in the remaining platforms was open to vagaries of nature including dust, dirt, sunlight and rainwater. Also, the containers used for storing *leesa* were of poor quality. Leaked *leesa* was collected in open pits as shown in **photograph no. 2.2.1 and 2.2.2** below:

⁵⁶ 1,57,000 trees x production of 3.50 quintal per 100 tree x minimum selling price of ₹ 4,500 per quintal of *leesa* during 2013-18.



Photographs: 2.2.1 and 2.2.2: Collection of leesa in open pits at Sultannagari leesa depot of Nainital Forest Division

Impurities due to open storage might be one of the reasons of *leesa* produced in Uttarakhand remaining unsold. Besides, leaked *leesa* garnered poor rates in comparison to the normal *leesa*. The price difference ranged between ₹ 144 and ₹ 1,984 per quintal.

The Government stated (January 2019) that the problem of leakage of *leesa* was more due to storage in tins and less due to shortage of shades. However, the Department assured that shades would be constructed as per availability of funds.

2.2.10 Minor Minerals and Other Sources of Revenue

Collection of minor minerals (sand, *bazari* and boulder) from rivers flowing through reserved forests is an essential flood control measure and a good source of revenue for the Government. After approval of GoI, particular area of forest land *i.e.* riverbed is leased to the UFDC for a period of ten years to conduct the mining operations. UFDC recovers management fees, royalty, goods and services tax, income tax, river training fee, labour welfare fees, *etc.* while the Forest Department levies transit fees (currently ₹ 110 per cum) and road maintenance fees (currently ₹ 130 per truck) on the minerals being transported.

In three divisions, mining operations are being carried out.

Audit noticed instances of loss of transit fees in mining operations being conducted in Gola and Kailash/Nandhaur rivers (under Tarai East Forest Division), Kosi and Dabka rivers (under Tarai West Forest Division) and Song and Jakhan rivers (under Dehradun Division), as detailed below:

2.2.10.1 Loss due to short availability of mining season

Target of collection of specific quantities of minor minerals is fixed for each mining season. Mining season begins from 1st October of each year and ends on 31st May of the next year. Mining operations are conducted till achievement of mining targets or end of mining season, whichever is earlier. DFOs issue work order for conducting mining activities in favour of UFDC after clearance of the proposal by the district mining committee headed by District Magistrate.

In all three mining divisions, no specific time schedule was prescribed for completing various processes involved in the approval of mining operations in river bed. DFOs of

Tarai East and Tarai West forest divisions issued work orders to UFDC for initiating mining operations with delay of 14 days to 172 days during mining season 2013-14 to 2017-18. Besides, DFO Tarai East/UFDC were not able to get environment clearance in Kailash/Nandhaur river in due time leading to complete halt of mining operations in the river during 2016-17. This led to short availability of the working season for carrying out mining operations. Hence, in Tarai East and Tarai West Divisions, only 3.06 crore cum minor minerals could be extracted against the target of 3.90 crore cum during 2013-14 to 2017-18 mining season. Audit also noticed that the Dehradun Forest Division had issued work orders for five years together, yet the UFDC extracted only 31.12 lakh cum of minor minerals against the target of 60.52 lakh cum. The Department, therefore, could not realise transit fees of ₹ 53.15 crore due to short/non-production of 1.13 crore cum of minor minerals, as detailed in *Appendix-2.2.7*.

The Government stated (January 2019) that targets of extraction represent the maximum permissible extraction of minor minerals from the riverbed and any non-achievement thereof should not be the basis for estimating the revenue loss. Besides, it was also stated that mining was dependent on market demand. The reply should be seen in light of the fact that short production was largely on account of delay in issue of work orders. Besides, the mining activity continued till the last date of permissible duration which shows that the targets could be achieved if more time was available for mining. In case of Dehradun, Divisional Logging Manager (Mining), Dehradun, UFDC, stated that extraction of minor minerals was less due to remote location of the mining area and because of only local demand.

As mining activity is a regular activity of the Department carried out each year, the Department needs to iron out all the bottlenecks which lead to delay in issue of work orders and in making other arrangements.

2.2.10.2 Cancellation/reduction of public demand

In the areas allotted to UFDC for extraction of minor minerals, joint inspections by the Department and UFDC are carried out twice in a month for having an assurance that mining is not being carried out in prohibited areas and beyond permitted depth. UFDC is required to remove river bed material from within the middle half of the river and within three meter depth. The Department raises public demand (PD) which is a penalty equal to twice the value of mineral extracted in the prohibited area.

Audit noticed that two divisions⁵⁷, out of total three test checked divisions where river bed mining is carried out, issued 19 PDs⁵⁸ of ₹ 8.39 crore against the UFDC after joint inspections of mining sites during 2013-14 to 2017-18. The DFOs issued PDs unilaterally as representatives of UFDC refused to put their signature on inspection reports. However, Conservator of Forests (CF, Western Circle) cancelled seven PDs of ₹ 1.96 crore on the

⁵⁷ DFO Tarai West and DFO Tarai East.

⁵⁸ 16 PDs of ₹ 6.05 crore in Tarai West Division and three PDs of ₹ 2.34 crore in Tarai East Division.

ground that the PDs were issued unilaterally and officials of UFDC had not signed the inspection reports. Further, 10 PDs of ₹ 6.34 crore were settled by the CF for ₹ 0.29 crore only by reducing the quantity of illegally mined minerals. Balance two PDs of ₹ 6.86 lakh were pending before CF for arbitration. Hence, the Department did not realise the revenue of ₹ 8.01 crore.

The Department needs to address this issue and find a workable solution since willful non-cooperation by UFDC officials has persistently resulted in non-realisation of penalty.

2.2.10.3 Short-levy of Transit fee

Government Notification⁵⁹ of October 2017 stipulated levy of transit fee at the rate of ₹ 50 per ton for collection of river bed material from the forest area with immediate effect in place of earlier rate of ₹ 15 per ton.

Scrutiny of records of two divisions⁶⁰ revealed that the transit fee was levied at the rate of ₹ 15 per ton in place of ₹ 50 per ton even after the effective date of the notification (06.10.2017) which resulted in loss of revenue of ₹ 72.27 lakh⁶¹. Audit found that the order was received late by these Divisions.

During exit conference, the Department accepted the audit observation. The Department should ensure timely application of rates of transit fee.

2.2.10.4 Non-receipt of Premium and Lease Rent

Lessees of forest land have to pay one time premium and annual lease rent to the Forest Department. GoU issued a policy (September 2005) in respect of renewal of existing lease and sanction of new lease on forest land and assessment of premium and annual lease rent of forest land. As per Paragraph 2 of the Policy, premium has to be paid prior to commencement of the lease. The policy stipulated the following conditions given in **Table-2.2.12** for the purpose of lease on the forest land:

Table-2.2.12: Conditions of premium and lease rent

Sl.No.	Purpose of lease	Formula for calculation of premium	Formula for calculation of lease rent
For Renewal of lease			
1.	Agriculture (more than one Hectare)	Current market rate intimated by the District Magistrate x Period of lease/99	One per cent of Premium amount
2.	For <i>Ghar, Chapper, Jhopadi, Gausala (more than 200 square metre)</i>		Five per cent of Premium amount
3.	Commercial		
For New lease			
1.	For the construction of Hydro Power Project, electric transmission lines; establishment of Water based industries <i>i.e.</i> mineral water plant and Development of tourism infrastructure facilities.	Current market rate intimated by the District Magistrate x Period of lease/99	One per cent of Premium amount
2.	Other than above purpose	Current market rate intimated by the District Magistrate	Ten per cent of Premium amount

⁵⁹ Number 2190/X-2-2017-21(13) / Dehradun Date 06 Oct 2017 of forest and environment Section 2 of Uttarakhand.

⁶⁰ Tarai West, Ramnagar (₹ 1.06 lakh 18.10.2017 to 01.11.2017) and Soil Conservation, Kalsi (₹ 71.21 lakh 06.10.2017 to 24.10.2017).

⁶¹ The revenue loss was from the period 06.10.2017 to 01.11.2017.

Out of the eleven test checked units, in four units⁶² instances of non-recovery or short recovery of the premium and lease rent having considerable money value were noticed in 8 cases. The cases of non-recovery/short recovery of the premium and the lease rent are detailed in **Table-2.2.13** below:

Table-2.2.13: Non-recovery and short recovery of premium and lease rent*(Amount in ₹)*

Sl. No.	Unit	Entity	Non recovery/ Short recovery	Premium	Lease Rent	Total
1.	DFO, Tarai Central Van Prabhag, Haldwani	M/s Kichha Sugar Company (lease expired in May 1997. Not paid since May 1997)	Non-recovery of Premium and lease rent since May 1997	72,62,500	1,59,77,500	2,32,40,000
2.	DFO, Tarai Central Van Prabhag, Haldwani	M/s Haridatt Nityanand Vidyalaya (Lease expired in 1991. Not renewed till May 2018)	Non-recovery of Premium and lease rent since 1992	9,03,02,727	12,19,08,672	21,22,11,399
3.	DFO, Tarai Central Van Prabhag, Haldwani	Uttar Pradesh Sainik Punarwas Sanstha Farm House Lease expired in 1991. Not renewed till May 2018)	Non-recovery of Premium and lease rent Since 1992	129,70,56,818	35,02,05,336	164,72,62,154
4.	DFO, Tehri Van Prabhag New Tehri	Uttarakhand Krishi Utapadan Mandi Parishad (Lease commenced from February 2017 for 30 years. Sanction issued in September 2012))	Non-recovery of Premium and lease rent	2,00,418	6,01,260	8,01,678
5.	DFO, Tehri Van Prabhag New Tehri	Power Grid Corporation of India Ltd. Koteswar (Sanction issued in March,2017)	Short Recovery of lease rent	-	11,53,926	11,53,926
6.	DFO, Tarai East Van Prabhag, Haldwani	Century Paper Mill Lal Kuan (Lease renewal commenced from January,2014)	Non-recovery of Premium and lease rent	184,72,19,152	40,93,04,790	225,65,23,942
7.	Director, Rajaji Tiger Reserve	Shri Doodhari ji Barfani Gaushala Trust (Lease expired in September 1986. Not renewed till June 2018)	Non-recovery of Premium and lease rent	91,76,566	29,36,512	1,21,13,078
8.	Director, Rajaji Tiger Reserve	Nagar Palika Parishad Haridwar (<i>at present Nagar Nigam, Haridwar</i>) (Lease expired in March 2008. Not renewed till June 2018)	Non-recovery of Premium and lease rent	1,69,10,000	93,00,500	2,62,10,500
Total				326,81,28,181	91,13,88,496	417,95,16,677

(Details given in Appendix 2.2.8)

As per paragraph 2 of the policy, premium has to be paid prior to commencement of the lease. This condition was not enforced by the Department resulting in non-recovery of premium. Further, lease rent also was not recovered from the lessees. This resulted in non/short recovery of premium and lease rent of ₹ 417.95 crore.

Besides, forest land of 63.422 hectare was transferred (October 2017) to Rail Vikas Nigam Limited for Rail Project between Rishikesh and Karnprayag (126 kms), premium has to be paid by the lessee prior to commencement of the lease. However, demand for premium of ₹ 418.58 crore and lease rent of ₹ 41.86 crore was raised by the department in April 2018 after the transfer of land.

⁶² DFO, Tarai (Central), Tehri, Tarai East & Rajaji Tiger Reserve.

2.2.10.5 Loss due to discrepancy in rules made by the State Government

Two different sets of rules made by the State Government provide for different penalties for illegal transit of forest produce as shown in **Table-2.2.14** below:

Table-2.2.14: Penalty Rates for illegal transportation of minor minerals

Rule	Rule enforced by	Penalty
Uttarakhand Timber and Other Forest Produce Transit Rules, 2012'	Forest Department	upto ₹ 10,000
'Uttarakhand Minerals (Prevention of Illegal Mining, Transportation and Storage) (Amendment) Rules, 2015 and 2016	Mining Department	₹ 25,000 (before 7 th October 2015 for all cases)
		₹ 25,000 to ₹ 2,00,000 (on or after 7 th October 2015 based on type of vehicle)
		₹ 5,000 to ₹ 2,00,000 (as on or after 13 th November 2016 based on type of vehicle)

Penalties were imposed by seven DFOs⁶³ in 280 cases of illegal transportation of minor minerals from forest areas as per 'Uttarakhand Timber and Other Forest Produce Transit Rules, 2012' during 2015-16 to 2017-18. It was found that the Department could generate an additional revenue of ₹ 1.30 crore had the Department imposed penalty as per 'Uttarakhand Minerals (Prevention of Illegal Mining, Transportation and Storage) (Amendment) Rules, 2015 and 2016.

During exit conference, the ACS stated that the penalties leviable for illegal transportation under two different Acts would be reviewed.

2.2.11 Non-transfer of Potential Revenue

Paragraph 351 of Financial Hand Book Volume V stipulates that all deposits or balances, unclaimed for more than three complete accounting years, at the close of March in each year be credited to the appropriate head⁶⁴ of revenue.

Audit noticed that in 10 selected divisions, excluding Rajaji Tiger Reserve, an amount of ₹ 0.56 crore deposited by the private parties for permission for felling of trees on private land and as surety for *leesa* contractors was lying for more than three accounting years. Likewise, in eight divisions, ₹ 6.09 crore was lying in the forest deposit head for various works for more than three years as detailed in **Appendix-2.2.9**. Audit noticed that only DFO Tarai Central transferred such amounts in the appropriate revenue head. As such, ₹ 6.65 crore was not transferred to revenue head.

The Government stated (January 2019) that corrective action was being taken by all the forest divisions.

2.2.12 Blocking of revenue in Public Account

Revenue earned by Forest Department is deposited in the treasury under Major Head '0406- Forestry and Wildlife'. Revenue received on account of sale of *leesa* and timber

⁶³ Tarai Central; Tarai East; Soil Conservation, Kalsi; Nainital; Ramnagar; Tarai West; Dehradun. (Depending on type of vehicles involved in illegal transit).

⁶⁴ Major Head 0406.

of civil forests and van panchayats is apportioned⁶⁵ between the Department and other stakeholders.

Audit noticed that in two divisions⁶⁶, revenue of ₹ 30.82 crore⁶⁷ received on account of sale of *leesa* and timber of civil forests and van panchayats during 2008-09 to 2017-18 was credited into treasury under Major Head '8782-103' instead of apportioning the revenue between Forest Department, District Magistrate, Zila Panchayat and Van Panchayats and crediting the apportioned amount of the Forest Department under major head 0406- forestry and wildlife. Hence, the Department blocked its own revenue⁶⁸ as well as revenue of other entities in the public account and these were not available to the Government for use on various development schemes and programs.

The Government stated (January 2019) that required necessary action for apportionment of revenue had been initiated.

2.2.13 *Clear felling not followed by plantation*

Clear felling (felling of trees and removal of tree-roots) is allowed in the areas situated less than 1,000-metre height above sea level. Such felling is restricted to some specific areas and specific commercial crops like eucalyptus, teak and poplar and is strictly regulated under provisions of WP. Provisions of WPs provide that any clear felling must invariably be followed by plantation in the same area next year.

We noticed in Tarai Central forest division, out of three test checked divisions where clear felling is carried out, that clear felling was carried out during 2013-16 under provisions of WP. However, the plantation was not carried out in an area of 507 hectares which was clear-felled during 2013-16. Lack of plantation as provided in the WP adversely affects future prospects of revenue from the same areas besides reducing forest cover.

The Government assured (January 2019) to take corrective steps in the matter.

2.2.14 *Manpower*

Manpower is the most important resource for achievement of goals of any organisation. As all the silvicultural and enforcement activities of the Department are manpower

⁶⁵ **Timber {Civil Forests:** Forest Department-10 per cent as administrative charge plus 40 per cent of the remaining 90 per cent as revenue, District Magistrate- 40 per cent of remaining 90 per cent and Zila Panchayat- 20 per cent of remaining 90 per cent. **Van Panchayats:** Forest Department-10 per cent as administrative charge and Van Panchayat- remaining 90 per cent}.

Resin {Civil Forests: Forest Department- 10 per cent to Forest Department as administrative charge plus extraction cost plus 40 per cent of the 'remaining amount', District Magistrate- 40 per cent of 'remaining amount' and Zila Panchayat- 20 per cent of 'remaining amount'; Van Panchayats: Forest Department- 10 per cent plus extraction cost and rest of the amount to Van Panchayat}.

⁶⁶ Pithoragarh and Nainital.

⁶⁷ Pithoragarh- ₹ 8.05 crore, Nainital - ₹ 22.77 crore.

⁶⁸ Pithoragarh- ₹ 3.59 crore revenue of Department out of total deposit of ₹ 7.80 crore + Nainital- ₹ 3.02 crore revenue of Department out of deposit of ₹ 8.00 crore (break up of remaining blocked amount was not available with the Department) = ₹ 6.61 crore.

intensive, the successful attainment of the objectives of the Department is largely dependent upon the availability of manpower.

The position of the manpower with reference to some critical functional posts available with the Department (as on 31-03-18) revealed an imperfect distribution of workforce, as detailed in the **Table-2.2.15** below:

Table-2.2.15: Position of men in position against sanctioned posts as on 31.03.2018

Details of Posts	Indian Forest Service					State Forest Service	Subordinate Forest Service		Lower Subordinate Forest Service
	PCCF	APCCF	CCF	CF	DCF	ACF	FRO	DFRO/Forester	Forest Guard
Sanctioned Posts	03	04	14	17	31	90	308	2,137	3,650
Men in position (including deputation)	06+03*	04+06*	12+11*	11+04*	32+04*	26+10*	244	1,829	2,432
Percentage of sanctioned posts	-	-	-	-	-	-	-	-	67

Source: Information collected from the Department.

** Officers on deputation.*

Data in the table shows that position of manpower at PCCF level, responsible for planning and monitoring, was much in excess. There was shortage of foresters and forest guards who are responsible for all silvicultural and enforcement activities in the forests and the Department attributed encroachments and illegal felling to the shortage of manpower in these cadres. The audit observations like instances of illegal felling and illegal mining in the forest areas; and encroachments, *etc.*, in the State, may to a large extent be attributable to shortage of manpower in the field formations.

2.2.15 Internal controls

Internal controls are activities and safeguards that are put in place by an entity to ensure that its activities are proceeding as planned. It is an integral process that aims to get accountability obligations fulfilled; applicable laws and regulations complied; operations executed economically, efficiently and effectively; and ultimately results in safeguarding resources against loss. The internal controls were deficient as seen in the instances like delayed preparation of working plans; non-constitution of WPU; non-conducting of canopy opening operations; non-felling due to lack of marking operations; blockade of royalty of development related felling; short production of resin, *etc.*. These instances continued year after year despite the fact that the top management of the Department was aware of the deficiencies.

Apart from the above, several other instances were noticed during audit. These are discussed below:

- Paragraph 154 (12) of Uttarakhand Budget Manual provides that any large claim against another Government, local body or other outside party allowed to remain outstanding for an unduly long time constitutes financial irregularity. Hence, the Department should recover all its dues in a timely manner. However, in 11 selected

divisions, an amount of ₹ 19.05 crore⁶⁹ of arrears was pending for recovery. The Department was found to have initiated no process for recovery of these dues during the audit period despite the fact that the information in this regard was being submitted regularly to territorial CFs by the divisions.

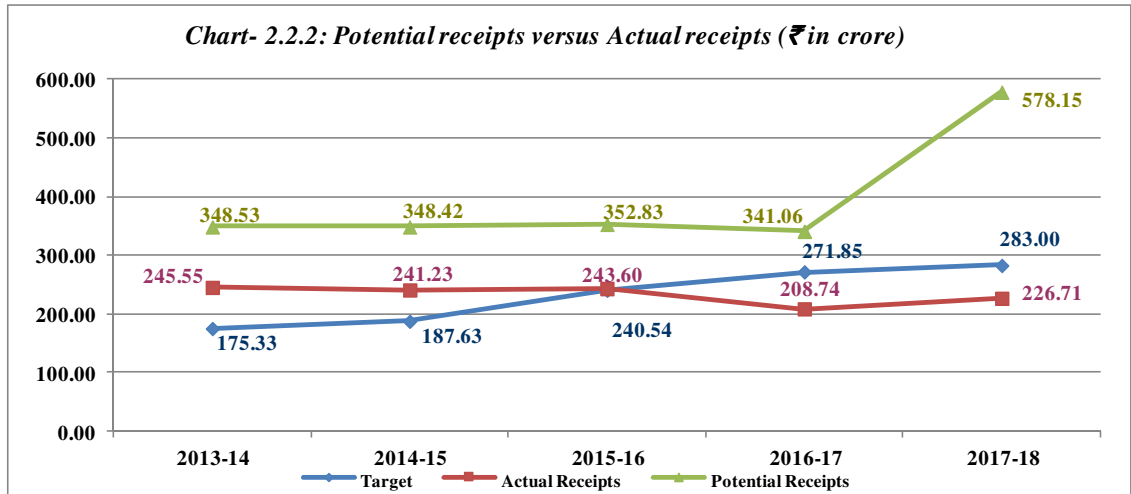
- In eight divisions, 2,308 cases related to forest offences were pending at Department level. Out of above, 1,025 cases were pending for more than three years; 410 cases were pending between two and three years; and 873 cases were pending between one and two years.
- In 11 selected divisions, 9,053.21 hectare forest land was encroached. Out of the encroached land, a proposal for regularisation in 193 cases (125.56 hectare encroached since 1940/1950) was submitted in 2001 to CFs but no further correspondence with GoI was made in this regard and the land remained encroached without regularisation. Besides, in case of 121 encroachments (75.66 hectare), the courts had ordered (1993/2007) for getting these vacated. However, no efforts had been made by the Department to vacate the encroached area. Also, 112 cases (158.45 hectare) of encroachment were pending proceedings at the Departmental court and in 11,519 cases (8,693.54 hectare), no action was initiated by the Department to get the land vacated. Hence, due to inaction of the divisional authorities, 9,053.21 hectare of forest land remained encroached.

The Government stated (January 2019) that action was being taken for quick disposal of cases pending in various divisions and removal of encroachments.

2.2.16 Graphical representation of financial implications arising out of the deficiencies noticed in audit

Audit findings spread across the preceding paragraphs highlight numerous systemic and compliance deficiencies which were responsible for non-realisation of significant amount of revenue and losses to the Department during 2013-18. If the deficiencies were not in existence, the 'potential receipts' of the selected divisions during 2013-18 would have been significant. We worked out the year wise 'potential receipts', as detailed in **Appendix-2.2.10**, of the selected divisions during 2013-18 based on our audit findings. The actual receipts and 'potential receipts' of the selected divisions during 2013-18 are depicted in the **Chart-2.2.2** below:

⁶⁹ ₹ 0.69 crore from UFDC (pending from 2001-2014) and ₹ 14.66 crore from UP Van Niagam (pending from 1977-2000), ₹ 3.47 crore from Industries (pending from 1985-2000), ₹ 0.23 crore from others (1952-2012).



From the above graph, it is evident that the potential receipts could have been much more than the actual receipts of the selected divisions during 2013-18.

2.2.17 Conclusion and recommendations

Audit observed that the Department faced a systemic problem of significant delays in preparation of working plans which resulted in cessation of felling operations and non-realisation of revenue by the Department. The systems prescribed by the GoI for preparation of working plans through establishment of permanent Working Plan Units were not followed in the State. Despite prescription in working plans for canopy opening in *Sal* forests, the Department never carried out canopy opening operations which caused non-realisation of revenue and non-availability of funds for assisted natural regeneration. Besides, lack of canopy opening could have an adverse impact on growth of new *Sal* trees. Instances of non-marking of trees by the Department; non-felling by UFDC and blockade of royalty of development works related lots by the UFDC further reduced the revenue prospects of the Department. Royalty fixation committee erred year after year in fixing royalty of eucalyptus timber resulting in loss to the Department. Lack of mechanism for payment of royalty on actual production of timber by the UFDC and on auctioned fuel wood and tree roots also caused losses to the Department.

Further, issues of short-production of resin; non-inclusion of eligible pine trees in the working plan; and lack of proper storage facilities adversely affected revenue of the Department from resin. The Department could garner more revenue by checking instances of short-production of minor minerals, cancellation and reduction of public demand from UFDC; non-receipt of premium and lease rent from lessees; and blockade of amounts of revenue in public account.

The Government may, to leverage sources of revenue of the Forest Department, like to implement following recommendations of Audit:

1. Working Plan Units should be constituted as per the provisions of Working Plan Code, 2014 and the working plans must be prepared in a time bound manner;

2. The working plan prescriptions for felling, including canopy opening, should be strictly adhered to by the Divisions and sufficient budget may be provided for marking operations;
3. Proper royalty of timber from eucalyptus trees should be fixed and royalty of development works related felling may be recovered as per prescribed schedule;
4. There should be a mechanism to collect royalty on excess production of timber by the UFDC in comparison to the estimated production of timber on which royalty is currently payable to the Department by the Corporation;
5. Royalty may also be levied and collected on sale of fuel wood and tree roots by the UFDC;
6. Production of resin and extraction of minor minerals should be started as per scheduled timeline and targets of production should be achieved;
7. Public demand against UFDC may be recovered as per original inspections carried out in the divisions and there should be no reduction/cancellation of Public Demands without any basis;
8. Premium and lease rent must be recovered in a timely manner from all lessees; and
9. Amounts of revenue blocked in Public Account should be apportioned quickly and eligible amount adjusted in the revenue head of the Department.

During exit conference, the Government accepted all the recommendations made by audit.

COMPLIANCE AUDIT

COMMERCIAL TAX DEPARTMENT

2.3 Short-levy of tax

Incorrect application of tax rates resulted in short-levy of tax of ₹51.71 lakh.

Sections-4 (2) (b) (i) (b) and (d) of the Uttarakhand VAT Act (UV Act), 2005 stipulate five *per cent* rate of tax in respect of goods specified in Schedule II (B) and 13.5 *per cent* rate of tax in respect of goods not specified in any of the schedules *w.e.f* 28 May 2012.

(a) As per letter no. 2163 issued (19 September 2008) by the Additional Commissioner, Commercial Tax (ACCT), Dehradun, 12.5 *per cent* (revised 13.5 *per cent w.e.f* 01 April 2010 and 28 May 2012) tax was leviable on Tread Rubber (used for retreading over tyre and tube) since it cannot be considered to be covered under entry number 96⁷⁰ of Schedule II (B). (*Item no 1 and 2 of Appendix 2.3.1*).

During 2017-18, Audit test checked the records of 72 Assistant Commissioners/Deputy Commissioners, Commercial Tax⁷¹ where 19,114 assessments were completed. Audit

⁷⁰ Rubber, Raw Rubber, Latex and Dry Ribbed are covered under entry number 96.

⁷¹ Assistant Commissioners, Commercial Tax: 34 and Deputy Commissioners, Commercial Tax: 38.

test checked 7,638 cases and found that (October 2017 to January 2018) in three offices, the AA while assessing (from August 2016 to March 2017) five cases⁷² of four dealers⁷³ for the assessment years 2012-13 to 2014-15, levied tax at the rate of five, and four and half *per cent* respectively instead of 13.5 *per cent* on goods sold which were not classified in any of the schedules. This resulted in short-levy of tax amounting to ₹ 26.12 lakh (as detailed in **Appendix 2.3.1**).

On this being pointed out, AA, Dehradun (October 2017) stated that tax was levied (in case of **Item no 1 and 2 of Appendix 2.3.1**) as per entry no 96 of Schedule II (B) of UV Act, 2005 and AA (DC), Roorkee (December 2017) stated that the tax was levied (in case of **Item no 4 of Appendix 2.3.1**) as per entry No.144 of Schedule II (B) and that notice would be issued to the concerned dealers. Reply was not admissible as only Rubber, Raw Rubber, Latex and Dry Ribbed are covered under entry number 96 and entry No.144 is related to rubber processed oil manufactured from discarded rubber. Further, as per instructions of the ACCT, Tread Rubber (used for retreading over tyre and tube) cannot be considered to be covered under entry number 96. The AA (AC), Roorkee, accepted (January 2019) the facts and issued notice (in case of **Item no 5 of Appendix 2.3.1**) against the outstanding demand of ₹ 6.64 lakh; recovery is awaited (January 2019). Further, out of three cases of AA (AC), Dehradun, outstanding demand of ₹ 0.21 lakh has been recovered (February 2018) from one dealer (in case of **Item no 3 of Appendix 2.3.1**).

(b) As per classification of serial number (X) of 61 of Schedule II of UV Act, five *per cent* tax is to be levied on such LCD panels, LED panels and parts which are to be used as Information Technology Products (ITP).

Further, as per decision (May 2016) given by the CCT on application of a dealer under Section 57 of UV Act, 2005, five *per cent* tax was to be levied on LED panels and parts used as ITP whereas 13.5 *per cent* tax was to be levied for LED bulbs, LED tubes, LED panels and other LED products as these are unclassified goods.

Test-check (January 2017) of the records of Deputy Commissioner {Assessing Authority (AA)}-I, Commercial Tax, Roorkee revealed that the AA while finalising the assessment (March 2016) of a dealer⁷⁴ (engaged in manufacturing and selling of LED light) for the assessment years 2012-13, had levied tax at the rate of five *per cent* on sale of emergency light (Street light, Post top lamp, Flood light, panel Down lighter, panel Comet, panel Disc light, panel D-light, Pathfinder *etc.*) amounting to ₹ 3.01 crore, considering these items as classified goods of Schedule II(B) whereas tax on sale of LED panels, *etc.* (not used as ITP) was required to be levied at the rate of 13.5 *per cent* being unclassified

⁷² Assistant Commissioner, Commercial Tax (Sector VIII), Dehradun: 03 (Out of test checked 70 cases); Deputy Commissioner, State Tax (Assessment-IV), Roorkee: 01 (Out of test checked 129 cases) and Assistant Commissioner, State Tax (Assessment-IV), Roorkee: 01 (Out of test checked 64 cases).

⁷³ Tin No. 05000495986, Tin No. 05013114716, TIN No.05007468831 and Tin No. 05009153139.

⁷⁴ Tin No. 05006597480.

items of sale. Application of incorrect rate of tax, thus, resulted in short-levy of tax of ₹ 25.59 lakh⁷⁵ at differential rate of 8.5 per cent⁷⁶.

On this being pointed out, the Commissioner State Tax, while accepting (September 2018) the facts, stated that a demand of ₹ 24.72 lakh has been raised against the dealer after adjusting the deposit of ₹ 20.86 lakh against the total demand of ₹ 40.65 lakh; recovery is awaited (November 2018).

Incorrect application of tax rates resulted in short-levy of tax of ₹ 51.71 lakh⁷⁷.

The matter was referred to the Government (April 2018); its reply was awaited (August 2019).

2.4 Non-imposition of penalty

Penalty and interest amounting to ₹ 0.59 crore was not levied on delayed deposit of TDS into Government Account.

Section 35(4), (8) & (9) of Uttarakhand Value Added Tax Act, 2005 provides that every person, who is responsible for making payment in pursuance of a work contract, shall at the time of making such payment deduct the amount of tax deduction at source (TDS) and deposit the same in the government treasury before the expiry of the month following the month in which deduction was made. Any deviation from this attracts a penalty of a sum not exceeding twice the amount deductible but not deducted or deducted but not deposited. In addition, simple interest at the rate of 15 per cent per annum is leviable from the date on which such amount was deductible to the date on which such amount is actually deposited.

During 2017-18, Audit test checked the records of 72 Assistant Commissioners/Deputy Commissioners, Commercial Tax⁷⁸ where 19,114 assessments were completed out of which Audit test checked 7,638 cases. Scrutiny (November 2017) of the records of Assistant Commissioner (Assessment), II, Commercial Tax, Rishikesh⁷⁹ revealed that a firm⁸⁰ had deducted ₹ 0.29 crore⁸¹ as TDS on 30.06.2012 on payment of ₹ 7.25 crore to a contractor in the year 2012-13. This TDS was required to be deposited in Government Treasury by 31.07.2012, but it was deposited on 25.08.2012. As per Section 35 (8) and (9) of the Uttarakhand Value Added Tax Act, 2005, a penalty of ₹ 0.58 crore (being double of TDS amount of ₹ 0.29 crore) and an interest of ₹ 0.68 lakh⁸² from the date of deduction of TDS till the date of deposit was leviable. However, the assessing authority did not levy (April 2016) penalty on the firm for late deposit of TDS.

⁷⁵ ₹ 3.01 crore x 8.5 per cent (13.5 -5 per cent).

⁷⁶ (13.5-5) per cent.

⁷⁷ (₹ 26.12 + ₹ 25.59) lakh.

⁷⁸ Assistant Commissioners, Commercial Tax: 34 and Deputy Commissioners, Commercial Tax: 38.

⁷⁹ In one case out of test checked 72 cases in Assistant Commissioner (Assessment), II, Commercial Tax, Rishikesh.

⁸⁰ Tin No.: 05012674724.

⁸¹ Four per cent of ₹ 7.25 crore.

⁸² {₹ 29 lakh x 15 per cent x 57 days (30.06.2012 to 25.08.2012)}/365 days.

On this being pointed out by the Audit, the assessing authority (AA) issued (February 2018) a notice, under section 35 (8) of Uttarakhand Value Added Tax Act, 2005 to the firm for explaining reasons for delay in deposit of TDS. The reply furnished by the firm was not accepted by the AA as no appropriate evidence/reason was furnished for delay. The AA, therefore, imposed penalty of ₹ 0.58 crore and interest of ₹ 0.68 lakh (February 2018). Against the order of AA, the firm approached (09.05.2018) the First Appellate Authority which had put on hold (25.07.2018) the 90 *per cent* amount of the outstanding penalty till final decision on the appeal and directed the firm to deposit the balance 10 *per cent* amount with the Government within 30 days. Accordingly, the firm has deposited the 10 *per cent* amount of total penalty *i.e* ₹ 5,79,632 (06 July 2018 and 06 August 2018) and the interest component *i.e.* ₹ 67,888 (27 June 2018) with the Government.

The matter was referred to the Government (March 2018); its reply was awaited (August 2019).

2.5 Non-levy of tax

Assessing authority treated sale of rice flour as tax free sale instead of levying tax at the rate of 13.5 per cent resulting in non-levy of tax of ₹8.59 lakh.

Sections-4 (2) (b) (i) (b) and (d) of the VAT Act stipulate four *per cent* rate of tax in respect of goods specified in Schedule II (B) and 12.5 *per cent* rate of tax in respect of goods not specified in any of the schedules. Further, 0.5 *per cent* additional tax on goods specified in Schedule II (B) and one *per cent* additional tax on the goods not specified in any Schedule was also leviable with effect from 01 April 2010. The rates were further revised with effect from 28 May 2012 to five *per cent* in respect of goods specified in Schedule-II B and 13.5 *per cent* in respect of unclassified goods.

During 2015-16, Audit test checked the records of 49 Assistant Commissioners/Deputy Commissioners, Commercial Tax⁸³ where 10,694 assessments were completed out of which Audit test checked 4,310 cases. Scrutiny of the records (August 2015) of Deputy Commissioner (Assessment)-I, Commercial Tax, Roorkee, revealed that a dealer⁸⁴ had declared tax free sale of rice flour for ₹ 1.65 crore⁸⁵ during the year 2011-12. The Assessing Authority (AA) approved (February 2015) this tax free sale despite the fact that rice flour was not classified under any schedule of the act. Non-levy of tax on the sale of rice flour, therefore, resulted in loss of revenue amounting to ₹ 22.22 lakh⁸⁶.

On this being pointed out by the Audit, the Assessing Authority imposed (March 2017) tax of ₹ 22.22 lakh which included tax of ₹ 13.63 lakh on central sales. The dealer submitted form-F in support of the consignment sale. The balance amount of VAT of ₹ 8.59 lakh was pending for recovery.

⁸³ Assistant Commissioners, Commercial Tax: 26 and Deputy Commissioners, Commercial Tax: 23.

⁸⁴ TIN No.:05003933763. {One case out of 279 test checked cases in Deputy Commissioner (Assessment)-I, Commercial Tax, Roorkee}.

⁸⁵ Consignment sale (on commission) ₹ 1.01 crore and other sale ₹ 0.64 crore.

⁸⁶ At the rate of 13.5 *per cent* of ₹ 1.65 crore.

The Government further replied (September 2018) that ₹ 1.72 lakh had been recovered from the outstanding demand of ₹ 8.59 lakh. The remaining amount of ₹ 6.87 lakh was still pending for recovery.

EXCISE DEPARTMENT

2.6 Sale of liquor above Maximum Retail Price

The department suffered loss of revenue amounting to ₹19.50 lakh due to short-levy of compounding fee on the licensees for selling liquor/beer above Maximum Retail Price.

Section 34 (b) of the United Provinces Excise Act, 1910 (as adopted in Uttarakhand State) stipulates that the authority granting any license, permit or pass under this Act may cancel or suspend it in the event of any breach, by the holder thereof or by his servant or by any one acting on his behalf with his express or implied permission, of any of the terms and conditions thereof. The sale of liquor exceeding the Maximum Retail Price (MRP) is also one of the conditions which violates terms and conditions of license. Further, penalties for such violations have been described in Rule 22 (three) of Notification No.118/XXIII/2016/04 (01) 2016 dated 25 February 2016 of Excise Department, Government of Uttarakhand wherein compounding fee shall be levied on licensees if it is found during complaint/inspection of the country/foreign liquor/beer shops in the state that the sale of country/foreign liquor/beer was made at rate above the MRP. Under Rule 22 (three) (4) of the above notification, compounding fee at the rate of three *per cent* of the advance cash security deposit would be levied on the fourth or more violations committed by the licensees. Under Rule 18 (6), the licensee has to pay security deposit equal to two months minimum guaranteed duty in two instalments; first instalment within thirty days and second instalment within forty five days respectively. These penal provisions of the above notification and the Act were also incorporated in the terms & conditions of the licenses of all the licensees.

During 2017-18, Audit test checked the records of 370 licensees out of 529 licensees of 13 District Excise Officers (DEOs). Scrutiny of the Breach Register during audit (June 2017) of Office of the DEO, Dehradun revealed that seven licensees (out of 50 test checked licensees in Dehradun) sold the country/foreign liquor/beer at rates above the MRP and committed fourth or more violations during May 2016 to December 2016. It was noticed that the Department incorrectly levied the compounding fee at the rate of three *per cent* of one month advance security deposit instead of total advance security deposit. This resulted in short-levy of compounding fee of ₹ 19.50 lakh (as detailed in **Appendix-2.6.1**). Further, the Department failed to take any deterrent action like suspension/cancellation of license and forfeiture of entire security deposit⁸⁷ as defined under the Act to prevent repeated violations.

On this being pointed out by Audit, the Government stated that Rule 22 (three) (4) of above notification implies cash security deposit equivalent to one month's minimum guaranteed duty and the authority concerned had imposed the penalty accordingly.

⁸⁷ The total security deposit of all seven habitual offenders amounts to ₹ 4.81 crore.

The reply of the Government was not acceptable as Rule 22 (three) (4) clearly stipulate that three *per cent* on the total advance cash security deposit would be levied on fourth or more violations committed by the licensees. In addition, as per Section 34 of the Act, Excise Commissioner has the power to cancel/suspend the licence as deterrence for repeated violations. The department, therefore, suffered loss of revenue amounting to ₹ 19.50 lakh due to short-levy of compounding fee on the licensees.

MINING DEPARTMENT

2.7 Non-levy of fee for storage of minerals

Department suffered a revenue loss of ₹ 3.17 crore due to non-levy and non-realisation of prescribed fee for storage of minerals by three stockholders.

In accordance with Rule 2 (1) (C) of the Uttarakhand Minerals (Prevention of Illegal mining, transportation and storage) Rules, 2005 (as amended in 2015) promulgated by the Uttarakhand Government, Industrial Development Section-1 by notification no. 96/VII-1/2016/158-ख/2004 dated 22.01.2016, district Pauri Garhwal (excluding plain region of Tehsil Kotdwar) was classified as semi-mountainous region and whole area of district Haridwar was classified as plain region. Further, Rule 8(2)(2) stipulates that payment of application fee of ₹ 50,000 by a stockholder for storage of minerals upto 1,000 cubic metres and ₹ 50,000 each for additional 1,000 cubic metres or part thereof, in semi-mountainous regions. As per Rule 8(2) (3) the application fee is ₹ 60,000 for storage of minerals upto 1,000 cubic metres and ₹ 60,000 each for additional 1,000 cubic metres or part thereof, in plain regions.

During 2017-18, Audit test checked the records of 274 minerals stockholders out of 393 stockholders of 13 District Mining Officers (DMOs). Scrutiny of records of DMOs, Haridwar⁸⁸ and Pauri Garhwal⁸⁹ (June 2017 and January 2018 respectively) revealed that three stockholders did not deposit the application fee for storage of minerals in accordance with the above notification. The details are given below:

a) Under the provisions of the above notification, permission was granted on 31.03.2016 to a stockholder by the DMO Haridwar for storage of 32,000 cubic metres of minerals. As per Rule 8(2) (3), application fee of ₹ 0.19 crore⁹⁰ was payable by the applicant for storage of 32,000 cubic metres of minor minerals. However, audit neither found any evidence regarding deposit of said amount on records nor on demand, it was provided by the DMO, Haridwar.

b) Another, stockholder of Haridwar deposited (10 May 2016) a sum of ₹ 1.20 lakh as fee for storage of minerals. The applicant was granted permission on 30 June 2016 for storage of 2,50,000 cubic metres of minor minerals. As per aforesaid Rule 8(2)(3),

⁸⁸ Two stockholders out of 64 test checked stockholders in Haridwar.

⁸⁹ One stockholder out of 16 test checked stockholders in Pauri Garhwal.

⁹⁰ 32,000 cum x ₹60,000/1,000 cum = ₹ 19, 20,000 (₹ 0.19 crore).

application fee of ₹ 1.50 crore⁹¹ was payable for storage of 2,50,000 cubic metres of minerals. Thus, application fee of ₹ 1.49 crore⁹² was chargeable from the stockholder.

c) Similarly, a stockholder of Pauri Garhwal was granted permission on 11.02.2016 for storage of 3,00,000 cubic metres of minor minerals. As per aforesaid Rule 8 (2)(2), application fee of ₹ 1.50 crore⁹³ was payable for storage of 3, 00,000 cubic metres of minerals, whereas only ₹ 1.00 lakh was deposited (10 September 2015) by the applicant. Therefore, a sum of ₹ 1.49 crore⁹⁴ towards application fee was chargeable from the stockholder.

The department, therefore, suffered a revenue loss of ₹ 3.17 crore⁹⁵ in the above three cases due to non-levy of the application fee for storage of minerals, as per rule.

On being pointed out by audit, DMO, Haridwar intimated (June 2017) that the issue would be brought to the notice of higher authorities for seeking their guidance and action would be taken accordingly. DMO, Pauri Garhwal replied (January 2018) that notice would be issued to the concerned stock holder and action would be taken accordingly.

The matter was referred to the Government (May 2018); its reply was awaited (August 2019).

2.8 Non-realisation of mining receipt

Non-realisation of regularisation fee of ₹ 1.21 crore and annual renewal fee of ₹ 0.65 crore from the owners of the stone crushers resulted in loss of revenue of ₹ 1.86 crore to the Government.

With the objective of conservation of environment, prevention of illegal mining, providing pollution free environment to the people of the State and for smooth operationalisation of crusher units, the State Government issued (November 2016) a license policy, 2016⁹⁶ for plants/crushers earlier installed/operated and to be installed in the future by superseding the license policy, 2015. Further, clause-9 of Chapter-I of the new policy stipulated that the owners of earlier installed/operated crusher/plant units had to declare capacity (ton per hour) within 15 days of declaration of this policy. On the basis of the declared capacity of the plant/crusher, regularisation of plant/crusher was to be done by the State Government on the recommendation of District Magistrate and Director, Geology and Mining Department. Further, 50 per cent of the difference of prescribed application fee⁹⁷ (as given in the chapter-II of the policy) and the application fee already deposited by the owner of plant was to be taken as regularisation fee. Moreover, as per clause-I of the Chapter-III of the policy, 25 per cent of prescribed

⁹¹ 2, 50,000 cum x ₹60,000/1,000 cum = ₹1, 50, 00,000 (₹ 1.50 crore).

⁹² ₹(1,50,00,000-1,20,000) = ₹1,48,80,000 (₹ 1.49 crore).

⁹³ 3,00,000 cum x ₹50,000/1,000 cum = ₹ 1,50,00,000 (₹1.50 crore).

⁹⁴ 1,50,00,000-₹1,00,000= ₹1,49,00,000 (₹ 1.49 crore).

⁹⁵ ₹ (0.19 + 1.49 + 1.49) crore.

⁹⁶ Office memorandum no. 1758/VII-1/16/68-Rit/08, Dehradun, dated 19.11.2016.

⁹⁷ As per chapter-II of the policy, application fee for stone crusher of **plain area** is ₹10.00 lakh (capacity 100 ton per hour) and ₹2.00 lakh (every 100 additional ton per hour or additional part thereof) and Application fee for stone crusher of **hilly area** is ₹ 5.00 lakh (capacity 100 ton per hour) and ₹1.00 lakh (every 100 additional ton per hour or additional part thereof).

application fee was to be deposited by the owner of stone crusher plant as annual renewal fee.

During 2017-18, Audit test checked the records of 171 stone crusher units out of 245 stone crusher units of 13 District Mining Officers (DMOs). Scrutiny of records (between June 2017 and March 2018) of four DMOs⁹⁸ disclosed that as per clause-9 of the Chapter-I of the above policy, the Department did not collect regularisation fee of ₹ 1.21 crore from 26 owners of the stone crushers⁹⁹ for regularisation of the crushers / plants which were installed/operated prior to the effective date (19 November 2016) of the policy and were also in operation thereafter (*as detailed in Appendix-2.8.1*). Further, none of these 26 owners of stone crushers deposited their annual renewal fee of ₹ 0.65 crore as per the clause-1 of the Chapter-III of the policy (*as detailed in Appendix-2.8.1*).

On this being pointed out by the audit, the DMO, Dehradun and Haldwani recovered (February 2019) the regularisation fee of ₹ 12.25 lakh as well as annual renewal fee of ₹ 6.75 lakh from three owners {**at serial no. (B) and (C) of the Appendix-2.8.1**}. In case of DMO, Pauri Garhwal and Haridwar, recovery of regularisation fee as well as annual renewal fee from 23 owners was still pending (February 2019).

Non-realisation of mining receipt of ₹ 1.67 crore¹⁰⁰ from the owners of stone crushers, therefore, resulted in loss of revenue to the State Government.

The matter was referred to the Government (May 2018); its reply was awaited (August 2019).

2.9 Incorrect computation of royalty

Application of incorrect rates of royalty by the Department resulted in short-levy of royalty amounting to ₹32.74 lakh.

The Uttarakhand Minor Mineral (Concession) (Amendment) Rule, 2016¹⁰¹, with effect from 26 February 2016, prescribed royalty rate of ₹ 194.50 per cum for minor minerals such as sand, bajri and boulder available at *river bed* and locations other than *river beds*. Royalty for ordinary earth was ₹ 50 per ton. The royalty rates¹⁰² for ordinary sand, bajri and boulder or any of the above in a mixed condition available in the river bed was revised to ₹ 154 per cum for Haridwar and other places from 19 May 2016.

During 2017-18, Audit test checked the records of 245 leaseholders out of 350 leaseholders of 13 District Mining Officers (DMOs). Scrutiny of records of the

⁹⁸ Haridwar, Dehradun, Haldwani (Nainital) and Pauri-Garhwal.

⁹⁹ DMO, Haridwar-22 (out of 64 test checked stone crushers); DMO, Dehradun-01 (only one test checked stone crushers); DMO, Haldwani-02 (out of 25 test checked stone crushers) and DMO, Pauri Garhwal-01 (out of two test checked stone crushers).

¹⁰⁰ ₹ 108.25 lakh (Regularisation Fee: ₹ 120.50 - ₹ 12.25) + ₹ 58.25 (Renewal Fee: ₹ 65.00 - ₹ 6.75) = ₹ 166.50 lakh.

¹⁰¹ Notification sankhya 211/VII-I/24 kha/2007 dated 26.02.2016.

¹⁰² Notification sankhya 842/VII-I/2016/24- kha/2007, dated 19.05.2016.

following DMOs¹⁰³ revealed that the DMOs made incorrect computation of royalty in six cases. The details are given below:

a) In DMO, Dehradun, in the case of three licensees¹⁰⁴ which were granted license during April to May 2016 for ordinary earth, the DMO calculated the royalty at the rate of ₹ 8 per cum¹⁰⁵ whereas the royalty was to be calculated at the rate of ₹ 50 per ton¹⁰⁶. As per the royalty amount derived by the DMO, these leaseholders deposited an amount of ₹ 1.94 lakh as royalty. The DMO should have calculated the royalty of ₹ 26.69 lakh by taking the applicable rate *i.e.* ₹ 50 per ton for ordinary earth. The incorrect computation of royalty for the ordinary earth resulted in short-levy of royalty of ₹ 24.75 lakh as detailed in *Appendix-2.9.1*.

b) Similarly, in DMO, Nainital, in the case of three licensees¹⁰⁷ which were granted license for minor minerals¹⁰⁸ from locations other than river bed during September 2016 and November 2016, the DMO calculated the royalty of the minor minerals at the rate of ₹ 154 per cum¹⁰⁹ whereas it was to be calculated at the rate of ₹ 194.50 per cum. This resulted in short-levy of royalty of ₹ 7.99 lakh due to incorrect computation of royalty as detailed in *Appendix-2.9.1*.

On this being pointed out, DMO, Nainital stated (November 2017) that the royalty was levied and realised at the rate of ₹ 154 per cum as per notification (19 May 2016). The reply was not acceptable as the rate was applicable for the minor mineral available in the river bed whereas the cases pointed out by audit were related to the minor minerals mined from locations other than river bed. Royalty was, therefore, to be levied at rate of ₹ 194.50 per cum. The DMO, Dehradun replied (March 2018) that after examining the matter and issuing notice to the leaseholders, recovery would be made. Incorrect computation of the royalty by the Department, therefore, resulted in short-levy of royalty amounting to ₹ 32.74 lakh¹¹⁰.

The matter was referred to the Government (June 2018); its reply was awaited (August 2019).

2.10 Non-levy of fees

Non-levy of River Training, Development fee and Compensation fee on lease deeds led to short deposit of ₹ 59.68 lakh in the District Mineral Foundation which was meant to be utilised for the benefit of people/areas affected by mining related operations.

As per Section 3(3) of Uttarakhand sub-mineral (Sand, Gravel, Boulder, Brick *etc.*) policy, 2015, issued vide Office Memorandum dated 31.07.2015, in addition to Royalty,

¹⁰³ DMO, Nainital and DMO, Dehradun.

¹⁰⁴ Out of 55 test-checked leaseholders in Dehradun.

¹⁰⁵ This rate was applicable earlier to the issuance of the notification dated 7 August 2015.

¹⁰⁶ This rate was substituted in place of ₹ 8 per cum in the notification dated 7 August 2015.

¹⁰⁷ Out of 19 test-checked leaseholders in Haldwani, Nainital.

¹⁰⁸ Sand, bajri and boulder.

¹⁰⁹ This rate was applicable for the minor minerals available in the river bed and it was not applicable for the minor minerals available at locations other than river bed.

¹¹⁰ ₹(24.75+7.99) lakh.

River Training¹¹¹ and Development fee on private leaseholders was leviable @ 15 per cent and 10 per cent of royalty respectively. Further, as per Office Memorandum dated 10.10.2016, besides levy of River Training and Development fee, a levy of Compensation fee @ 15 per cent of royalty on private leaseholders was also applicable. Further as per Section 8(3)(2) of the said policy, the above fees were required to be deposited in District Mineral Foundation (DMF) for utilisation on works for the benefit of people/areas affected by mining related operations.

During 2017-18, Audit test checked the records of 245 leaseholders out of 350 leaseholders of 13 District Mining Officers (DMOs). Scrutiny of records of DMOs, Uttarkashi and Dehradun, revealed (December 2017 and March 2018 respectively) that these fees¹¹² were not levied at the time of computation of royalty on lease deeds executed with eight private leaseholders¹¹³ between January 2015 and October 2016 nor these fees were deposited subsequently by the concerned private leaseholders¹¹⁴. Non-levy/deposit of River Training, Development and Compensation fee from the private leaseholders, therefore, led to loss of ₹ 59.68 lakh in the DMF as detailed in **Appendix-2.10.1.**

On being pointed out by Audit, DMO, Uttarkashi stated that there was no provision for River Training and Development Fee at the time of execution of lease deed. The reply of DMO, Uttarkashi was not acceptable since the above mentioned fees were applicable even on leaseholders whose lease deeds were executed before the issuance of the above memorandum, as clarified by the Industries Directorate in June 2018. DMO, Dehradun instructed (May 2018) the private lease holder to deposit the requisite amount without any delay.

Non-levy of River Training, Development fee and Compensation fee, therefore, led to loss of ₹ 59.68 lakh in the DMF.

The matter was referred to the Government (June 2018); its reply was awaited (August 2019).

The cases pointed out are based on the test-check conducted by audit. The Departments may initiate action to examine similar cases and take necessary corrective action.

¹¹¹ River training refers to structural measures which are taken to improve a river and its banks.

¹¹² River training fee, Development fee and Compensation fee.

¹¹³ Uttarkashi: seven (out of eight test checked leaseholders) and Dehradun: 01 (out of 55 test checked leaseholders).

¹¹⁴ In one case, a private lease holder had deposited River training fee and Development fee but not Compensation fee.