

Report of the  
Comptroller and Auditor General of India

Report No.3  
(REVENUE RECEIPTS)

for the year ended 31 March 2011

**GOVERNMENT OF JHARKHAND**

<b>TABLE OF CONTENTS</b>		
	<b>Paragraph</b>	<b>Page</b>
Preface		(v)
Overview		(vii)
<b>CHAPTER –I: GENERAL</b>		
Trend of revenue receipts	1.1	1
Response of the departments/Government towards audit	1.2	4
Failure of senior officials to enforce accountability and protect the interest of the State Government	1.2.1	4
Departmental audit committee meetings	1.2.2	5
Non-production of records to Audit for scrutiny	1.2.3	5
Response of the departments to draft audit paragraphs	1.2.4	6
Follow-up on Audit Reports – summarised position	1.2.5	6
Compliance with earlier Audit Reports	1.2.6	6
Analysis of the mechanism for dealing with the issues raised by audit	1.3	7
Position of Inspection Reports	1.3.1	7
Recovery of accepted cases	1.3.2	8
Action taken on the recommendations accepted by the departments/Government	1.3.2.1	8
Audit planning	1.4	8
Results of audit	1.5	9
Position of local audit conducted during the year	1.5.1	9
This Report	1.5.2	9
<b>CHAPTER – II: VALUE ADDED TAX/TAXES ON SALES, TRADE ETC.</b>		
Executive summary		11
Tax administration	2.1	13
Trend of receipts	2.2	13
Cost of collection	2.3	14
Working of internal audit wing	2.4	14
Impact of audit	2.5	14
Analysis of arrears of revenue	2.6	15
Arrears in assessment	2.7	16
Analysis of collection	2.8	16
Results of audit	2.9	17
<b>Utilisation of declaration forms in inter-State trade and commerce (A review)</b>	2.10	18

	Paragraph	Page
Other audit observations	2.11	36
Results of cross-verification	2.12	36
Suppression of sales turnover under JVAT/JF Act	2.12.1	36
Irregularities in determination of turnover	2.13	38
Suppression of sales/purchase turnover under JVAT/JF Act	2.13.1	38
Incorrect determination of gross turnover under JVAT/JF Act	2.13.2	40
Application of incorrect rate of tax under JVAT Act	2.14	42
Irregularities in grant of Input Tax Credit	2.15	43
Irregularities in grant of exemptions	2.16	44
Incorrect allowance of exemption on transit sale	2.17	45
Irregular grant of exemption on export sale	2.18	46
Non/short imposition of penalty	2.19	46
Mistakes in computation of tax	2.20	47
<b>CHAPTER- III: STATE EXCISE</b>		
Executive summary		49
Tax administration	3.1	51
Trend of receipts	3.2	51
Cost of collection	3.3	52
Working of internal audit wing	3.4	52
Impact of audit	3.5	52
Analysis of arrears of revenue	3.6	53
Results of audit	3.7	54
Non-observance of provisions of Act/Rules	3.8	55
Short lifting of liquor by retail vendors	3.9	55
Non/delayed settlement of retail excise shops	3.10	56
Delayed settlement of exclusive privilege for wholesale supply of country spirit	3.11	58
Loss of revenue due to short realisation of licence fee	3.12	59
Loss of revenue due to non-settlement of excise shops under new Excise policy 2008	3.13	60
Loss of revenue due to non-realisation of fine on belated deposit of licence fee	3.14	61
<b>CHAPTER – IV: TAXES ON VEHICLES</b>		
Executive summary		63
Tax administration	4.1	65
Trend of receipts	4.2	65
Cost of collection	4.3	66

	Paragraph	Page
Working of internal audit wing	4.4	66
Impact of audit	4.5	66
Analysis of arrears of revenue	4.6	67
Results of audit	4.7	68
<b>Computerisation in Transport Department (A review)</b>	4.8	69
Non-observance/compliance of provisions of Acts/ Rules	4.9	89
Non-collection of vehicles taxes	4.10	89
Short realisation of trade tax	4.11	90
Loss of interest due to delay in deposit of revenue collected by banks	4.12	91
Non-levy of tax on vehicles involved in surrender	4.13	92
<b>CHAPTER-V: OTHER TAX RECEIPTS</b>		
Executive summary		93
<b>A. STAMP DUTY AND REGISTRATION FEES</b>		
Tax administration	5.1	95
Trend of receipts	5.2	95
Cost of collection	5.3	96
Working of internal audit wing	5.4	96
Analysis of arrears of revenue	5.5	96
Results of audit	5.6	97
Non-observance of the provisions of Acts/Rules	5.7	98
Misclassification of instruments	5.8	98
<b>B. ELECTRICITY DUTY</b>		
Short levy of electricity duty	5.9	99
<b>CHAPTER-VI: MINERAL CONCESSION, FEES AND ROYALTY</b>		
Executive summary		101
Tax administration	6.1	103
Trend of receipts	6.2	103
Working of internal audit wing	6.3	104
Impact of audit	6.4	104
Analysis of arrears of revenue	6.5	104
Results of audit	6.6	105
Non-observance of the provisions of Acts/Rules	6.7	106
Short levy of royalty	6.8	106
Short levy of royalty due to downgrading of coal	6.9	107
Absence of inter-departmental cross-verification of data resulted in short levy of royalty	6.10	108

	<b>Paragraph</b>	<b>Page</b>
Non-levy of penalty for non-submission of monthly returns	6.11	109
Non-raising of demand for price of illegally mined iron ore	6.12	109
Non-levy of penalty for illegal mining by works contractors	6.13	110
<b>CHAPTER-VII: OTHER NON-TAX RECEIPTS</b>		
Executive summary		111
<b>FOREST RECEIPTS</b>		
Tax administration	7.1	113
Trend of receipts	7.2	113
Working of internal audit wing	7.3	114
Analysis of arrears of revenue	7.4	114
Results of audit	7.5	114
<b>A. WATER RATES</b>		
<b>Receipts from Major and Medium Irrigation Projects (A review)</b>	7.6	115
<b>B. FOREST RECEIPTS</b>		
Non-disposal of unclaimed seized forest produce	7.7	129
Illegal extraction of minerals from forest area	7.8	130

## **PREFACE**

This Report for the year ended 31 March 2011 has been prepared for submission to the Governor under Article 151(2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising Value added tax/taxes on sales, trade etc., state excise, taxes on vehicles, other tax receipts, mineral concession, fees and royalty and other non-tax receipts of the State. The audits have been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

The cases mentioned in this Report are among those which came to notice in the course of test audit of records during the year 2010-11 as well as those which came to notice in earlier years but could not be covered in previous Reports.

## OVERVIEW

This Report contains 32 paragraphs including three reviews relating to non/short levy/loss of tax/duty having financial implication of ₹ 1,051.61 crore, of which, audit observations of ₹ 889.18 crore have been accepted by the Government/Department. Of ₹ 1,051.61 crore, ₹ 653.95 crore are recoverable and the balance amount of ₹ 397.66 crore was notional loss to the Government due to lacunae in the Acts/Rules and losses due to non-observance of norms/norms not being prescribed. Some of the major findings are mentioned in the following paragraphs:

### I. General

The total receipts of the Government of Jharkhand for the year 2010-11 were ₹ 18,781.12 crore against ₹ 15,118.47 crore during 2009-10. The revenue raised by the State Government amounted to ₹ 8,519.52 crore comprising tax revenue of ₹ 5,716.63 crore and non-tax revenue of ₹ 2,802.89 crore. The receipts from the Government of India were ₹ 10,261.60 crore (State's share of divisible Union taxes: ₹ 6,154.35 crore and grants-in-aid: ₹ 4,107.25 crore). Thus, the State Government could raise only 45 *per cent* of the total revenue. During 2010-11, taxes on sales, trade etc. (₹ 4,473.43 crore) and non-ferrous mining and metallurgical industries (₹ 2,055.90 crore) were the major source of tax and non-tax revenue respectively.

**(Paragraph 1.1)**

The number of inspection reports and audit observations issued upto December 2010, but not settled by June 2011, stood at 1,998 and 9,320 respectively involving ₹ 11,500.30 crore. In respect of 505 inspection reports, issued upto December 2010, even the first replies had not been received though these were required to be furnished within one month of their receipt.

**(Paragraph 1.2.1)**

During the years 2005-06 to 2009-10, the departments/Government accepted audit observations with a total revenue impact of ₹ 584.16 crore (out of total observation ₹ 3,363.53 crore pointed out in the Audit Reports) of which, ₹ 869.30 crore had been recovered as on 31 March 2011.

**(Paragraph 1.2.6)**

Test check of the records of 116 units of commercial taxes, state excise, motor vehicles, stamps and registration fees, electricity duty, mines and geology, forest and other non-tax receipts conducted during the year 2010-11 revealed under-assessments/short levy/loss of revenue aggregating ₹ 1,369.85 crore in 10,833 cases. During the course of the year, the departments concerned accepted under-assessments and other deficiencies of ₹ 932.93 crore involved in 7,632 cases.

**(Paragraph 1.5.1)**

## **II. Value added tax/Taxes on sales, trade etc.**

A review on “**Utilisation of declaration forms in inter-State trade and commerce**” revealed the following:

- There was no system in place for physical verification of central declaration forms which resulted in shortage in the number and risk of misuse of these forms. This is fraught with the possibility of loss of revenue.  
**(Paragraphs 2.10.7 and 2.10.8)**
- Data was not uploaded on the Tax Information Exchange System (TINXSYS) website.  
**(Paragraph 2.10.10.3)**
- Non-verification of utilisation of forms while scrutinising returns resulted in non/short levy of central sales tax (CST) of ₹ 3.55 crore including penalty of ₹ 2.40 crore.  
**(Paragraph 2.10.12)**
- Cross-verification of data/information received from other States indicated non/short accounting of purchase/stock receipt of ₹ 8.51 crore by four dealers of four Commercial taxes circles of the State during the period from 2004-05 to 2008-09 which resulted in short levy of CST of ₹ 2.86 crore including penalty of ₹ 2.04 crore.  
**(Paragraphs 2.10.13.1 and 2.10.13.2)**
- Cross-verification of data/information received from other States indicated that during 2006-08, nine dealers of five Commercial taxes circles of the State non/short accounted sales turnover of ₹ 24.62 crore, resulting in short-levy of CST of ₹ 2.96 crore including penalty of ₹ 1.97 crore.  
**(Paragraph 2.10.13.3)**
- Incorrect allowance of concessions/exemptions by the assessing officers in the assessments of 20 dealers of nine Commercial taxes circles resulted in short levy of CST of ₹ 24.10 crore.  
**(Paragraph 2.10.14.1)**
- Cross-verification of purchase/stock receipts of edible oil, iron ore, motor parts, marble and Fast Moving Commodity Goods (FMCG) worth ₹ 28.56 crore received from other States during the period from 2003-04 to 2008-09, indicated utilisation of 96 unauthorised C form and 21 unauthorised F form by 47 dealers registered in 15 Commercial taxes circles of the State which resulted in non-levy of CST amounting to ₹ 4.88 crore including penalty of ₹ 3.48 crore.  
**(Paragraph 2.10.14.3)**
- The system of furnishing of declaration forms while submitting returns was not made mandatory resulting in non-levy of interest and penalty of ₹ 53.17 crore in case of 13 dealers.  
**(Paragraph 2.10.15)**

Failure of the Department to collect data/information from different departments and cross verify the transactions shown in the returns resulted in short realisation of revenue of ₹ 7.68 crore including penalty of ₹ 4.05 crore.

**(Paragraph 2.12)**

Irregularities in determination of sales/purchase turnover resulted in non/short levy of tax and penalty of ₹ 178.10 crore.

**(Paragraph 2.13)**

In four Commercial taxes circles, in case of 10 assesseees, application of incorrect rate of tax resulted in short levy of tax of ₹ 9.66 crore.

**(Paragraph 2.14)**

In three Commercial taxes circles, in case of three assesseees, there was inadmissible allowance of input tax credit of ₹ 1.02 crore which resulted in non-levy of tax of ₹ 3.06 crore including penalty of ₹ 2.04 crore.

**(Paragraph 2.15)**

In four Commercial taxes circles, in case of six assesseees, incorrect grant of exemptions resulted in short levy of tax of ₹ 11.99 crore.

**(Paragraph 2.16)**

### **III. State excise**

In six excise districts, short lifting of liquors by 163 retail vendors resulted in non-realisation of Government revenue of ₹ 8.63 crore.

**(Paragraph 3.9)**

In 11 excise districts, non/delayed settlement of wholesale and retail excise shops resulted in loss of excise revenue of ₹ 99.47 crore.

**(Paragraphs 3.10 and 3.11)**

In one excise district, incorrect fixation of reserve fee, in respect of 38 retail excise shops, resulted in short realisation of licence fee of ₹ 1.40 crore.

**(Paragraph 3.12)**

### **IV. Taxes on vehicles**

A review on “**Computerisation in the Transport Department**” revealed the following:

- Computerisation in Transport Department was restricted to district transport offices, RTA and STA offices leaving aside other transport offices viz. Motor Vehicles Inspectors and Check-posts.

**(Paragraph 4.8.6)**

- Calculation of penalty on delayed payment of tax was being done and fed manually indicating insufficient mapping of business rules in the application.

**(Paragraph 4.8.9.4)**

- There was break in period of payment of tax ranging from three to 298 months in 5,249 cases indicating that the application was not suitably designed to flag such cases of non-payment of tax in the table.

**(Paragraph 4.8.9.7)**

- Irregular clearance of tax position due to manual feeding in the field Tax\_Upto\_date was indicative of poor input controls in the application.

**(Paragraph 4.8.9.8)**

In 19 District Transport Offices, demand notices were not issued against the owners of 2,834 tax defaulter vehicles, for the period between 2006-07 and 2010-11, resulting in non-realisation of tax dues of ₹ 11.11 crore.

**(Paragraphs 4.10.1 and 4.10.2)**

In two District Transport Offices, no tax was realised in case of 12 vehicles even after the expiry of period of surrender resulting in non-realisation of tax of ₹ 8.60 lakh.

**(Paragraph 4.13)**

## **V. Other Tax Receipts**

### **Stamp duty and Registration fees**

In the office of the District Sub-Registrar, Jamshedpur, transfer of lease deeds was misclassified as sale deeds. This resulted in incorrect execution of sale deeds of Government land besides non-fixing of responsibilities on the erring officials/officers.

**(Paragraph 5.8)**

### **Electricity Duty**

In one Commercial taxes circle, levy of electricity duty at incorrect rate resulted in short levy of electricity duty of ₹ 48.06 lakh.

**(Paragraphs 5.9)**

## **VI. Mineral Concession, Fees and Royalty**

In four district mining offices, in case of five lessees there was short levy of royalty of ₹ 20.30 crore due to suppression of stock and application of incorrect rates/formula prescribed by the Central Government.

**(Paragraph 6.8)**

Cross-verification of returns filed by two lessees of one district mining office with the data of dispatch of iron ore from Railways revealed suppression of dispatch of 12.18 lakh metric tonne. This resulted in under-assessment of royalty of ₹ 2.27 crore.

**(Paragraph 6.10)**

## VII. Other non-tax receipts

A review on “Receipts from Major and Medium Irrigation Projects” revealed the following:

- Non-achievement of targets of irrigation resulted in non-irrigation of 3.59 lakh hectares and 8,943 hectares of *Kharif* and *Rabi* crops respectively during 2005-10 and loss of revenue amounting to ₹ 6.34 crore.  
(Paragraph 7.6.8)
- Though irrigation was provided, *Sudkar* was not prepared in respect of 1.54 lakh hectares of *Kharif* and 37,142 hectares of *Rabi* crops during 2005-10 resulting in non-realisation of revenue of ₹ 3.21 crore.  
(Paragraph 7.6.9)
- The establishment expenditure on collection of per rupee of water rates for irrigation ranged between ₹ 9.13 to ₹ 35.31 during the period 2005-10.  
(Paragraph 7.6.10)
- Due to poor realisation of demand, the Government could not realise the amount of ₹ 384.77 crore from the users. Moreover, no certificate case under Bihar & Orissa Public Demand Recovery Act, 1914 was filed except in the case of M/s South Eastern Railway, Hatia, Ranchi of ₹ 1.01 crore.  
(Paragraph 7.6.11.1)
- User agencies were drawing water for commercial and domestic purposes either without agreement or in excess of the agreed volume of water for which no demand was raised by the divisions resulting in non/short raising of demand of ₹ 124.84 crore.  
(Paragraph 7.6.14)

## Forest receipts

In four forest divisions, non-disposal of unclaimed seized produce and minerals illegally extracted from forest area resulted in blockade of revenue of ₹ 17.44 lakh.

(Paragraphs 7.7 and 7.8)

# **CHAPTER-I**

## **GENERAL**

## CHAPTER- I: GENERAL

### 1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Jharkhand during 2010-11, the State's share of net proceeds of divisible Union taxes, duties assigned to States, grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.		2006-07	2007-08	2008-09	2009-10	2010-11
<b>I.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	3,188.50	3,473.55	3,753.21	4,500.12	5,716.63
	• Non-tax revenue	1,250.40	1,601.40	1,951.74	2,254.15	2,802.89
	<b>Total</b>	<b>4,438.90</b>	<b>5,074.95</b>	<b>5,704.95</b>	<b>6,754.27</b>	<b>8,519.52</b>
<b>II.</b>	<b>Receipts from the Government of India</b>					
	• State's share of divisible Union taxes	4,050.90	5,109.83	5,392.11	5,547.57	6,154.35
	• Grants-in-aid	1,520.02	1,841.77	2,115.78	2,816.63	4,107.25
	<b>Total</b>	<b>5,570.92</b>	<b>6,951.60</b>	<b>7,507.89</b>	<b>8,364.20</b>	<b>10,261.60</b>
<b>III.</b>	<b>Total receipts of the State Government (I &amp; II)<sup>1</sup></b>	<b>10,009.82</b>	<b>12,026.55</b>	<b>13,212.84</b>	<b>15,118.47</b>	<b>18,781.12</b>
<b>IV.</b>	<b>Percentage of I to III</b>	<b>44</b>	<b>42</b>	<b>43</b>	<b>45</b>	<b>45</b>

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 8,519.52 crore) was 45 per cent of the total revenue receipts. The balance 55 per cent of receipts, during 2010-11, was from the Government of India.

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

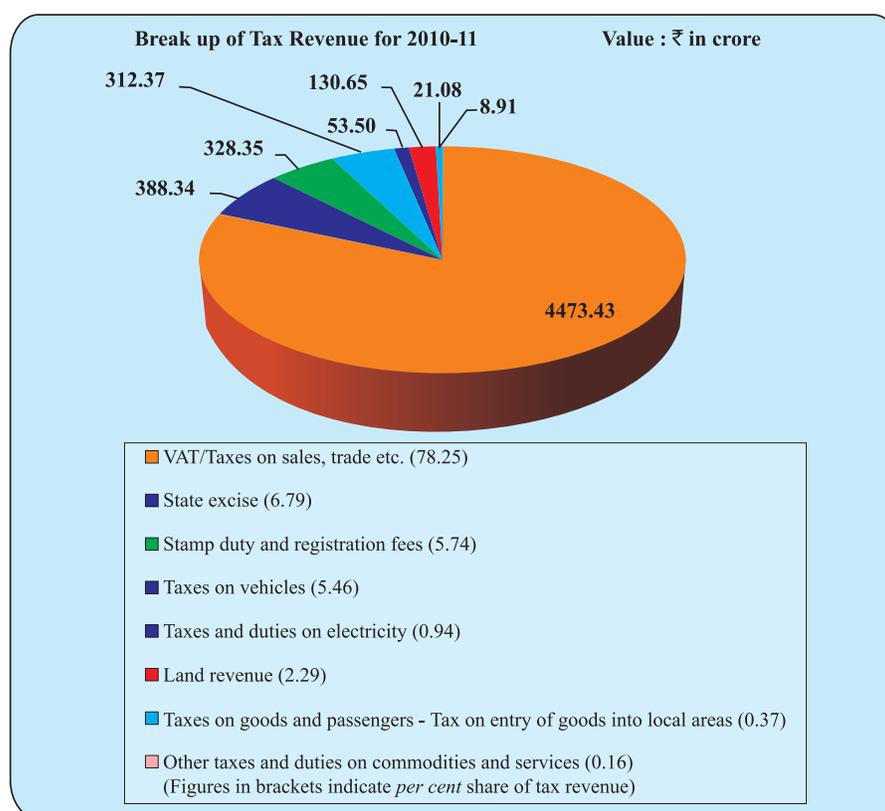
(₹ in crore)

Sl. No.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase/decrease in 2010-11 over 2009-10
1	VAT/Taxes on Sales, Trade etc.	2,556.90	2,845.88	2,996.20	3,597.20	4,473.43	(+) 24.36
2	State Excise	129.62	156.86	205.46	322.75	388.34	(+) 20.32
3	Stamp Duty and Registration Fees	122.02	156.26	192.16	238.20	328.35	(+) 37.85

<sup>1</sup> For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government for the year 2010-11. Figures under the major heads 0020 - Corporation tax, 0021 - Taxes on income other than corporation tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0044 - Service tax, 0037 - Customs, 0038 - Union excise duties and 0045 - Other taxes and duties on commodities and services- Minor Head - 901 - Share of net proceeds assigned to State booked in the Finance Accounts under "A-Tax revenue" have been excluded from the revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

(₹ in crore)

Sl. No.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase/decrease in 2010-11 over 2009-10
4	Taxes on Vehicles	218.27	135.67	201.57	234.21	312.37	(+) 33.37
5	Taxes and Duties on Electricity	45.14	76.47	43.47	46.87	53.50	(+) 14.15
6	Land Revenue	36.35	26.26	53.33	41.28	130.65	(+) 216.50
7	Taxes on Goods and Passengers - Tax on entry of goods into Local Areas	74.19	71.07	54.02	12.44	21.08	(+) 69.45
8	Other taxes and duties on commodities and services	6.01	5.08	7.00	7.17	8.91	(+) 24.27
<b>Total</b>		<b>3,188.50</b>	<b>3,473.55</b>	<b>3,753.21</b>	<b>4,500.12</b>	<b>5,716.63</b>	<b>(+) 27.03</b>



The reasons for variation in receipt for 2010-11 from those of 2009-10 in respect of principal heads of tax revenue were as under:

**VAT/Taxes on Sales, Trade etc.:** The increase of 24.36 *per cent* was attributed by the Department to better and effective monitoring of tax administration.

**State Excise:** The increase of 20.32 *per cent* was attributed by the Department to enforcement of the new policy.

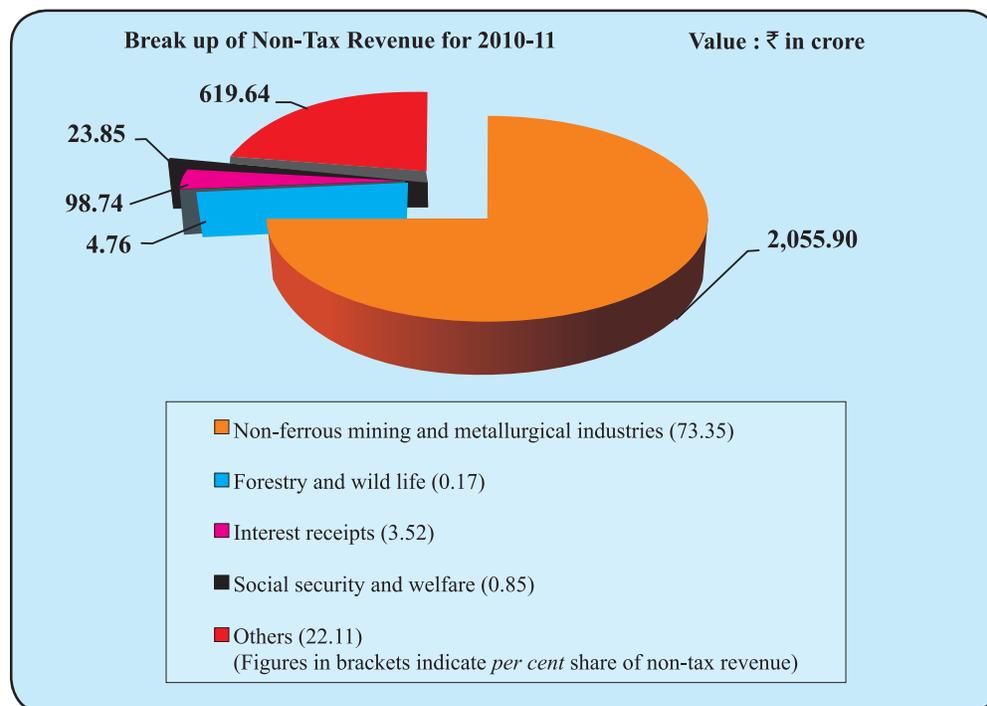
**Stamp Duty and Registration Fees:** The increase of 37.85 *per cent* was attributed to increase in valuation of property.

**Taxes on Vehicles:** The increase of 33.37 *per cent* was attributed to increase in number of vehicles for registration.

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

(₹ in crore)

Sl. No.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase/decrease in 2010-11 over 2009-10
1	Non-ferrous Mining and Metallurgical Industries	1,022.12	1,177.77	1,477.94	1,733.15	2,055.90	(+) 18.62
2	Forestry and Wild Life	3.68	4.06	7.20	3.57	4.76	(+) 33.33
3	Interest Receipts	38.09	87.14	109.53	153.20	98.74	(-) 35.55
4	Social Security and Welfare	11.65	12.57	4.25	13.49	23.85	(+) 76.80
5	Others	174.86	319.86	352.82	350.74	619.64	(+) 76.67
<b>Total</b>		<b>1,250.40</b>	<b>1,601.40</b>	<b>1,951.74</b>	<b>2,254.15</b>	<b>2,802.89</b>	<b>(+) 24.34</b>



The reasons for variation in receipt for 2010-11 from those of 2009-10 in respect of principal heads of non-tax revenue were as under:

**Non-ferrous Mining and Metallurgical Industries:** The increase of 18.62 *per cent* was attributed by the Department to better control.

**Forestry and Wild Life:** The increase of 33.33 *per cent* was attributed to recovery of dues and other receipts from seized forest produce and imposition of penalties.

## 1.2 Response of the Departments/Government towards audit

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

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

We reviewed the IRs issued upto December 2010 and found that 9,320 paragraphs having financial implications of ₹ 11,500.30 crore relating to 1,998 IRs remained outstanding at the end of June 2011 alongwith the corresponding figures for the preceding two years are mentioned in the following table:

(₹ in crore)

	June 2009	June 2010	June 2011
Number of outstanding IRs	2,803	2,166	1,998
Number of outstanding audit observations	14,545	10,772	9,320
Amount involved	7,705.91	7,676.65	11,500.30

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

(₹ in crore)

Sl. No.	Names of Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1	Commercial Taxes	VAT/Taxes on Sales, Trade etc	293	3,498	2,127.84
		Entry Tax	68	148	30.48
		Electricity Duty	44	88	59.35
		Entertainment Tax etc.	22	23	3.59
2	Excise and Prohibition	State Excise	69	366	346.78
3	Revenue	Land Revenue	593	1,017	1,518.84
4	Transport	Taxes on Motor Vehicles	125	793	411.77
5	Stamps and Registration	Stamps and Registration Fees	99	310	3,420.04
6	Mines and Geology	Non-ferrous Mining and Metallurgical Industries	273	2,192	1,873.70
7	Forest and Environment	Forestry and Wild Life	290	743	1,642.51
8	Water Resources	Water Rates	122	142	65.40
<b>Total</b>			<b>1,998</b>	<b>9,320</b>	<b>11,500.30</b>

Even the first replies, required to be received from the heads of offices within one month from the date of issue of the IRs, were not received for 505 IRs issued upto December 2010. This large pendency of the IRs due to non-receipts of the replies is indicative of the fact that the heads of offices and heads of the departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

**We recommend that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules.**

### 1.2.2 Departmental audit committee meetings

The Government set up audit committees (during various periods) to monitor and expedite the progress of the settlement of Inspection Reports (IRs) and paragraphs in the IRs. The details of the 12 audit committee meetings held against the approved target of 12 meetings during 2010-11 and the paragraphs settled are mentioned below:

(₹ in crore)

Heads of revenue	Number of meetings held	Number of paragraphs settled	Amount
VAT /Taxes on sales, trade etc.	2	33	2.19
Stamp duty and registration fees	1	24	0.51
State excise	1	42	56.44
Taxes on vehicles	1	374	129.79
Land revenue	2	119	6.56
Forestry and wild life	3	256	195.04
Non-ferrous mining and metallurgical industries	2	172	158.11
<b>Total</b>	<b>12</b>	<b>1,020</b>	<b>548.64</b>

### 1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of tax/non-tax receipts offices is drawn up sufficiently in advance and intimations are issued, usually one month before we commence the audit, to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, 198 tax assessment records relating to eight offices were not made available to us for audit. Year wise breakup of such cases is given below:

Name of Office	Year in which it was to be audited	Number of assessment cases/ records not produced to audit
District Mining Officer, Chaibasa	2010-11	05
Deputy Commissioner of Commercial Taxes (DCCT), Ranchi South Circle	2010-11	07
DCCT, Jamshedpur Urban Circle	2010-11	07
DCCT, Ramgarh Circle	2010-11	50
DCCT, Chaibasa Circle	2010-11	06
DCCT, Katras Circle	2010-11	114
DCCT, Chirkunda Circle	2010-11	02
DCCT, Ranchi Special Circle	2010-11	07
<b>Total</b>		<b>198</b>

### 1.2.4 Response of the departments to the draft audit paragraphs

As per the instruction issued (1966) by the Government of Bihar as applicable to the Government of Jharkhand, audit observations raised during local inspection are replied by the concerned authorities after issue of inspection report(s). The observations of serious irregularities are converted into draft paragraph(s) and forwarded to the concerned administrative departments/Government for their replies/comments within six weeks. In case of non-receipt of the reply or if the reply furnished by the departments/Government is not satisfactory, the draft paragraphs are included in the Audit Report. The Government, after laying the Audit Report in the legislature, forwards explanatory notes on the relevant paragraphs to the Committee on Public Accounts (PAC) for vetting by the Principal Accountant General (PAG). After discussion, the PAC makes recommendations for compliance by the Government within six months for final settlement of the paragraph.

Twenty nine paragraphs and three reviews included in this Report were forwarded to the Secretaries to the Government of the departments concerned between May and September 2011 followed by a reminder issued in September 2011. The draft reviews were discussed with the respective Secretaries of the departments between October and November 2011. The replies furnished by the Government have been suitably incorporated in the reviews; however, in other cases the Government has not furnished any reply as of February 2012.

### 1.2.5 Follow up on Audit Reports – summarised position

Sl. No.	Audit Report ending on	Date of presentation in the legislature	No. of paragraphs	No. of paragraphs <sup>2</sup> discussed	No. of paragraphs where action taken note not received
1	31 March 2000	21.03.2002	36	20	34
2	31 March 2001	17.12.2003	35	8	33
3	31 March 2002	03.08.2004	27	7	27
4	31 March 2003	24.03.2005	42	9	42
5	31 March 2004	19.12.2005	31	4	31
6	31 March 2005	24.08.2006	29	1	29
7	31 March 2006	04.04.2007	27	4	27
8	31 March 2007	26.03.2008	36	7	36
9	31 March 2008	10.07.2009	42	1	42
10	31 March 2009	13.08.2010	41	Discussion not started	-
11	31 March 2010	29.08.2011	26	Discussion not started	-

**N.B.** Audit had no information about any decision taken by the competent authority about discussion by PAC of the pending paragraphs of the Audit Reports relating to the areas/ districts falling under the jurisdiction of Jharkhand, for the periods prior to the constitution of the State of Jharkhand.

### 1.2.6 Compliance with the earlier Audit Reports

During the years 2005-06 to 2009-10, the Departments/Government accepted audit observations with a total revenue impact of ₹ 584.16 crore (out of total observations

<sup>2</sup> Upto 2007-08, 61 paragraphs including reviews of Audit Report (Revenue Receipts) 1999-2000 to 2007-08 were discussed in the Public Accounts Committee (PAC) of Jharkhand. Action taken notes on four paragraphs have been received. PAC has not taken any decision regarding settlement of other paragraphs.

of ₹ 3,363.53 crore pointed out in the Audit Reports) of which, ₹ 869.30 crore had been recovered as on 31 March 2011 as mentioned in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made	
			during 2010-11 <sup>3</sup>	upto 2010-11
2005-06	520.78	92.01	9.08	199.22 <sup>4</sup>
2006-07	591.10	201.08	105.80	307.45 <sup>4</sup>
2007-08	842.65	153.76	49.66	154.46
2008-09	1,171.03	88.57	94.66	194.21 <sup>4</sup>
2009-10	237.97	48.74	13.96	13.96 <sup>4</sup>
<b>Total</b>	<b>3,363.53</b>	<b>584.16</b>	<b>273.16</b>	<b>869.30</b>

### 1.3 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the performance of the **Transport Department** to deal with the cases detected in the course of local audit conducted during 2002-03 to 2010-11 and also the cases included in the Audit Reports for the years 2002-03 to 2010-11 was evaluated. The succeeding paragraphs 1.3.1 to 1.3.2.1 discuss the result of our analysis.

#### 1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during 2002-03 to 2010-11, paragraphs included in these reports and their status as on 31 March 2011 are tabulated in the following table:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IR	Paragraphs	Money value	IR	Paragraphs	Money value	IR	Paragraphs	Money value	IR	Para-graphs	Money value
2002-03	179	1845	183.96	19	146	15.16	0	80	0.95	198	1911	198.17
2003-04	198	1911	198.17	17	126	17.27	0	64	0.61	215	1973	214.83
2004-05	215	1973	214.83	16	131	104.76	0	1	0.00	231	2103	319.59
2005-06	231	2103	319.59	22	182	101.42	0	13	10.27	253	2272	410.74
2006-07	253	2272	410.74	18	133	207.33	1	35	0.88	270	2370	617.19
2007-08	270	2370	617.19	15	87	36.97	1	12	2.10	284	2445	652.06
2008-09	284	2445	652.06	18	87	77.79	51	428	7.72	251	2104	722.13
2009-10	251	2104	722.13	13	73	20.74	87	911	35.69	177	1266	707.18
2010-11	177	1266	707.18	18	95	21.23	48	392	131.47	147	969	596.94

<sup>3</sup> Figures are based on data/information furnished by the Commercial Taxes, Mines and Geology, Transport and State Excise & Prohibition Departments.

<sup>4</sup> Though the accepted money value was ₹ 92.01 crore, ₹ 201.08 crore and ₹ 88.57 crore for the Audit Reports 2005-06, 2006-07 and 2008-09 respectively the Government effected recovery of ₹ 199.22 crore, ₹ 307.45 crore and ₹ 194.21 crore respectively after reviewing and accepting the cases pointed out in audit.

### 1.3.2 Recovery of accepted cases

During 2002-03 to 2010-11, we included 53 draft paragraphs including three performance reviews having financial implication of ₹ 161.40 crore in the Audit Reports. The Department has so far accepted 48 paragraphs involving ₹ 154.19 crore. However, during 2005-06 to 2010-11, the Department effected recovery of ₹ 2.69 crore against accepted cases of ₹ 107.97 crore which was only 2.49 per cent. The recovery position prior to 2005-06 was not made available though called for.

**We recommend that the Government should take appropriate steps to improve the recovery position.**

#### 1.3.2.1 Action taken on the recommendations accepted by the Departments/Government

The draft performance reviews conducted by the PAG are forwarded to the concerned departments/Government for their information with a request to furnish their replies.

After formation of Jharkhand in November 2000, three reviews pertaining to the Transport Department have featured in the Audit Reports (Revenue Receipts) of the Comptroller and Auditor General of India, wherein we had proposed 12 recommendations as mentioned below:

Year of the report	Topic of the review	Number of recommendations made
2002-03	IT review on Road Transport Management Information System (NICTRAN)	02
2004-05	Working of Motor Vehicles Department	04
2010-11	Computerisation in the Transport Department	06

The Government/Department was requested (October 2011) to intimate the system adopted to monitor the action to be taken/action taken on the recommendations included in the reviews and assurances given by them in the exit conference/assurance meetings. We have not received any reply in this context from the Department.

### 1.4 Audit planning

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

During the year 2010-11, the audit universe comprised of 560 auditable units, of which 198 units were planned and 116 units were audited during the year. Besides, 10 units were also taken up by us solely for the purpose of the review on Irrigation Receipts. The details are mentioned in the following table:

Sl. No.	Principal Head	Total no. of units	Units planned during 2010-11	Units audited during 2010-11
1	VAT/Taxes on Sales, Trade etc.	46	28	24
2	Taxes on Vehicles	27	22	19
3	Stamp Duty and Registration Fees	41	10	18 <sup>5</sup>
4	State Excise	23	19	19
5	Land Revenue	270	35	00
6	Non-ferrous Mining and Metallurgical Industries	33	24	19
7	Forestry and Wildlife	111	56	17
8	Social security and Welfare	09	04	00
<b>Total</b>		<b>560</b>	<b>198</b>	<b>116</b>

Besides the compliance audit mentioned above, three performance reviews were also taken up to examine the efficacy of the tax administration of receipts as shown in the following table:

Name of the Department	Topic of the review
Commercial Taxes	Utilisation of declaration forms in inter-State trade and commerce
Transport	Computerisation in the Transport Department
Water Resources	Receipts from major and medium irrigation projects

## 1.5 Results of audit

### 1.5.1 Position of local audit conducted during the year

Our test check of the records of 116 units of commercial taxes, state excise, motor vehicles, stamps and registration fees, electricity duty, mines and geology, forest and 10 units of irrigation receipts, solely for the purpose of review, conducted during 2010-11, revealed under-assessments/short levy/loss of revenue aggregating ₹ 1,369.85 crore in 10,833 cases. During the course of the year, the concerned departments accepted under-assessments and other deficiencies of ₹ 932.93 crore involved in 7,632 cases pointed out in audit during 2010-11.

### 1.5.2 This Report

This report contains 32 paragraphs including three performance reviews (as mentioned in paragraph 1.4 of this report) relating to short/non-levy of tax, duty and interest, penalty etc. involving financial implication of ₹ 1,051.61 crore, of which ₹ 653.95 crore is recoverable and the balance amount of ₹ 397.66 crore was avoidable notional loss to the Government due to non-observance of the provisions of the Acts/Rules. The departments/Government have accepted audit observations involving ₹ 644.77 crore. The replies in the remaining cases have not been received (February 2012).

**We recommend that the Government may take suitable steps for recovery of the amounts accepted and issue guidelines for effective enforcement of the provisions of the Acts and Rules to avoid notional losses in future.**

<sup>5</sup> Though, during 2010-11, 18 units relating to Stamps and Registration were audited but the audit observations were included in the review “Receipts from Stamp Duty and Registration Fees including IT aspect” featured in the Audit Report (Revenue Receipts) for the year 2009-10- Government of Jharkhand vide paragraph no. 6.3.

## **CHAPTER-II**

# **VALUE ADDED TAX/ TAXES ON SALES, TRADE ETC.**

## EXECUTIVE SUMMARY

<b>Marginal increase in tax collection</b>	In 2010-11, the collection of taxes from VAT/CST increased by 24.36 <i>per cent</i> over the previous year which was attributed by the Department to better and effective tax administration.
<b>Internal audit not conducted</b>	Though an Internal Audit Wing had been set up at the CCT's office and divisional levels and guidelines for internal audit has been notified (July 2011), it is yet to assume a full fledged role and till October 2011 the same was regulated and controlled by the Finance Department (FD). However, information regarding audit conducted by the FD was not furnished, though called for.
<b>Recovery of observations pointed out by us in earlier years by the Department</b>	During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation, under-assessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 2,639.02 crore in 1,832 cases. Of these, the Department/Government accepted audit observations in 238 cases involving ₹ 314.86 crore but recovered only ₹ 80.63 crore. The recovery position as compared to acceptance of objections ranged between 16.28 and 53.70 <i>per cent</i> during 2006-07 to 2008-09.
<b>Results of audits conducted by us in 2010-11</b>	<p>In 2010-11, we test checked the records of 24 units relating to taxes on sales/VAT and found non/short realisation/levy of tax, penalty etc. involving ₹ 470.62 crore in 400 cases.</p> <p>The Department accepted non/short realisation/levy of tax and other deficiencies of ₹ 324.03 crore in 62 cases pointed out by us during 2010-11. An amount of ₹ 4.17 crore was recovered in six cases during 2010-11 which included ₹ 4.13 crore in one case for the year 2010-11.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present a review on "Utilisation of declaration forms in inter-State trade and commerce" conducted during test check of records and cross-verification of transactions with other States, where we found cases of utilisation of unauthorised forms, suppression of sales/purchase turnover, grant of irregular concessional rate of tax etc. Besides above, we also highlighted illustrative cases of ₹ 216.15 crore selected from observations noticed during our test check of records relating to assessment and collection of VAT/sales tax in the office of the DCsCT/ACsCT, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action.</p>
<b>Our conclusion</b>	<b>The Department needs to improve the internal control system so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future. It also needs to initiate immediate action to recover the non-realisation, under-charge of tax etc., pointed out by us, more so in those cases where it has accepted our contention.</b>

## CHAPTER-II: VALUE ADDED TAX/TAXES ON SALES, TRADE ETC.

### 2.1 Tax administration

The levy and collection of commercial taxes which include Sales tax/Value added tax, Central sales tax, etc; are governed by the Jharkhand Finance (JF) Act, 2001(repealed from 1 April 2006), Jharkhand Value Added Tax (JVAT) Act, 2005 and the Central Sales Tax (CST) Act, 1956. The Secretary-cum-Commissioner of Commercial Taxes is responsible for administration of these Acts and Rules in the Commercial Taxes Department (CTD). He is assisted by Additional Commissioner and Joint Commissioners of Commercial Taxes, Joint Commissioners of Commercial Taxes of Bureau of Investigation (IB), Vigilance and Monitoring, along with other Deputy/Assistant Commissioners of Commercial Taxes. DCCT (Hqr.) is the co-ordinator for the computerisation of the CTD.

The State is divided into five commercial taxes divisions<sup>1</sup>, each under the charge of a Joint Commissioner (Administration) and 28 circles<sup>2</sup>, each under the charge of a Deputy/Assistant Commissioner of Commercial Taxes (DCCT/ACCT). The DCCT/ACCT of the circle, responsible for levy and collection of tax due to the Government, besides market survey, is assisted by Commercial Taxes Officers. A Deputy Commissioner of IB is posted in each division to assist the JCCT (Administration) and a DCCT (Vigilance and Monitoring) is posted under the control of Headquarters in each division.

### 2.2 Trend of receipts

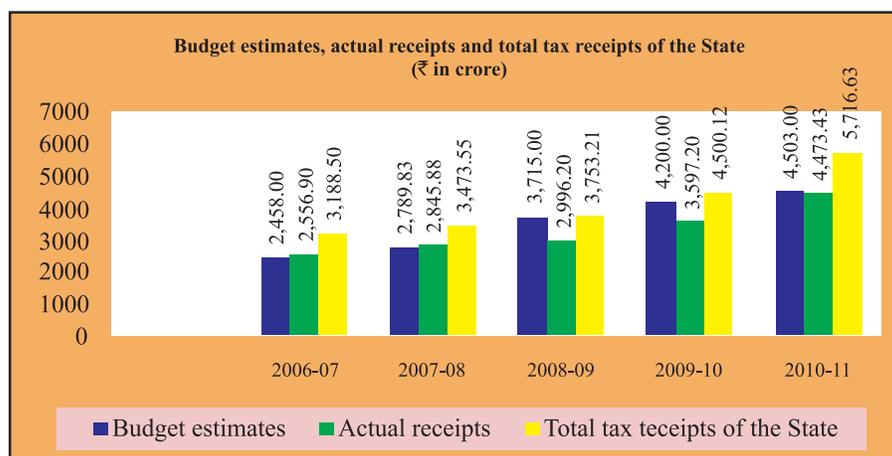
Actual receipts from taxes on sales, trade etc./VAT during the period 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and chart:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual Sales Tax/ VAT receipts vis-à-vis total tax receipts
2006-07	2,458.00	2,556.90	(+) 98.90	(+) 4.02	3,188.50	80
2007-08	2,789.83	2,845.88	(+) 56.05	(+) 1.97	3,473.55	82
2008-09	3,715.00	2,996.20	(-) 718.80	(-) 19.35	3,753.21	80
2009-10	4,200.00	3,597.20	(-) 602.80	(-) 14.35	4,500.12	80
2010-11	4,503.00	4,473.43	(-) 29.57	(-) 0.66	5,716.63	78

<sup>1</sup> Dhanbad, Dumka, Hazaribag, Jamshedpur and Ranchi.

<sup>2</sup> Adityapur, Bokaro, Chaibasa, Chirkunda, Deoghar, Dhanbad, Dhanbad Urban, Dumka, Giridih, Godda, Gumla, Hazaribag, Jamshedpur, Jamshedpur Urban, Jharia, Katras, Koderma, Lohardaga, Pakur, Palamu, Ramgarh, Ranchi East, Ranchi South, Ranchi Special, Ranchi West, Sahebganj, Singhbhum and Tenughat.



The reasons for shortfall against budget estimates during 2010-11 were attributed by the Department to reduction in the rates of tax on diesel and exemption of tax on foodgrains and other related items.

### 2.3 Cost of collection

The gross collection under sales tax/VAT receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during 2006-07 to 2010-11 are mentioned in the following table:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of the preceding years
2006-07	2,556.90	14.29	0.56	0.91
2007-08	2,845.88	16.66	0.59	0.82
2008-09	2,996.20	24.88	0.83	0.83
2009-10	3,597.20	31.17	0.87	0.88
2010-11	4,473.43	37.48	0.84	0.96

Source: Finance Account of the Government of Jharkhand for the year 2010-11 and Departmental figures.

### 2.4 Working of internal audit wing

Mention was made in paragraph 2.2.6 of Comptroller and Auditor General's Audit Report (Revenue Receipts) 2008-09 regarding non-conducting of internal audit in the Commercial Taxes Department. The Department has now reported that an audit wing had been set up at the CCT's office and divisional levels. Though guidelines for internal audit have been notified (July 2011), the audit wing is yet to assume a full fledged role and the same is regulated and controlled by the Finance Department (FD) till now (October 2011). However, information regarding audit conducted by the FD was not furnished though called for.

### 2.5 Impact of audit

#### Revenue impact

During the last five years (2005-06 to 2009-10) we pointed out non/short levy, non/short realisation, under-assessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect

computation etc., with revenue implication of ₹ 2,639.02 crore in 1,832 cases. Of these, the Department/Government accepted audit observations in 238 cases involving ₹ 314.86 crore and recovered ₹ 80.63 crore. The number of cases in which recovery was effected was not intimated by the Department. The details are shown in the following table:

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount		
2005-06	22	371	608.39	34	1.78	5.03	282.58
2006-07	20	262	428.80	36	36.66	19.80	53.70
2007-08	19	446	663.08	84	138.42	22.54	16.28
2008-09	17	228	298.33	53	131.51	24.65	18.74
2009-10	22	525	640.42	31	6.49	8.61	132.66
<b>Total</b>	<b>100</b>	<b>1,832</b>	<b>2,639.02</b>	<b>238</b>	<b>314.86</b>	<b>80.63</b>	

During 2006-07 to 2008-09, the recovery position as compared to acceptance of objections ranged between 16.28 and 53.70 *per cent*.

**We recommend that the Government should take appropriate steps to improve the recovery position.**

## 2.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 1,737.74 crore, of which ₹ 751.01 crore were outstanding for more than five years. The year-wise position of arrears of revenue during the period 2006-07 to 2010-11 is depicted in the following table:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2006-07	1,296.65	1,256.80
2007-08	1,256.80	1,261.41
2008-09	1,261.41	1,737.21
2009-10	1,737.21	1,856.26
2010-11	1,856.26	1,737.74

The Department did not furnish the information regarding the addition and clearance of the arrears during the year. As per the information furnished by the Department, out of ₹ 1,737.74 crore, demands of ₹ 60.19 crore were certified for recovery as arrears of land revenue. Recovery of ₹ 1,125.49 crore was stayed by the Courts and the Government. Specific action taken in respect of the remaining arrears of ₹ 552.06 crore has not been intimated (February 2012).

Thus, it would be seen from the above that 64.76 *per cent* of the total amount of arrears was pending settlement with the Courts or with the Government. The arrears recoverable as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery Act, 1914 were only 3.46 *per cent* of the total amount pending settlement.

**The Government may consider issuing directions to the Department for speedy settlement of the arrear cases by constant monitoring and recovering**

**the arrears as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery Act, 1914.**

## 2.7 Arrears in assessment

The details of cases pending at the beginning of the year 2010-11, cases becoming due for assessment during the year, cases disposed during the year and number of cases pending finalisation at the end of the year as furnished by the Commercial Taxes Department is shown in the following table:

Opening balance	New cases due for assessment during 2010-11	Total assessments due	Cases disposed of during 2010-11	Balance at the end of the year	Percentage of column 5 to 3
1	2	3	4	5	6
21,126 <sup>3</sup>	65,864	86,990	69,097	17,893 <sup>4</sup>	21

From the above it would be seen that pendency in finalisation of assessments was 21 *per cent*, resulting in delay in corresponding realisation of revenue in these cases. The action plan to liquidate the outstanding assessment cases has not been furnished by the Department though called for (September 2011).

## 2.8 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of VAT/taxes on sales, trade etc., during the year 2010-11 and corresponding figures for the preceding two years as furnished by the Finance (Commercial Taxes) Department is mentioned in the following table:

(₹ in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalties for delay in payment of taxes	Amount refunded	Net collection as per Department (2+3-5)	Net collection as per Finance Accounts	Percentage of column 2 to 7
1	2	3	4	5	6	7	8
2008-09	2,797.40	54.07	0.56	0.47	2,851.00	2,996.20	93.36
2009-10	3,319.44	84.74	0.82	0.06	3,404.12	3,597.20	92.27
2010-11 <sup>5</sup>	4,446.53	98.59	2.53	0.07	4,545.05	4,497.77	98.86

The Department collected ₹ 237.40 crore after completion of regular assessments during the years 2008-09 to 2010-11, while tax due in the cases detected during test check of selective cases conducted by us during the period from 2008-09 to 2010-11 amounted to ₹ 1,409.37 crore<sup>6</sup> which is almost six times higher.

**The high amount of leakage of revenue detected by us only in the test checked cases vis-à-vis the amount collected after regular assessments points towards a need for the Government to strengthen the tax administration.**

<sup>3</sup> During 2009-10, the Department reported a closing balance of 10,941 cases, however, during 2010-11, the opening balance (arrear cases) have been shown as 21,126 cases.

<sup>4</sup> There was difference of 112 cases in the closing balance as reported by the Department (18,005 cases) and as per actual totaling (17,893 cases).

<sup>5</sup> The figures for 2010-11 includes amount collected under VAT, Luxury Tax and Entry Tax.

<sup>6</sup> Tax due in the cases detected by audit during 2008-09 : ₹ 298.33 crore, 2009-10: ₹ 640.42 crore and 2010-11: ₹ 470.62 crore.

## 2.9 Results of audit

During 2010-11 we test checked the records of 24 units relating to VAT/Taxes on sales, trade etc., and found under-assessment of tax and other irregularities having financial implication of ₹ 470.62 crore in 400 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1	<b>Utilisation of declaration forms in inter-State trade and commerce (A review)</b>	1	104.04
2	Non-levy or short levy of tax	122	195.20
3	Irregular allowance of exemption from tax	113	88.04
4	Application of incorrect rates of tax	36	20.19
5	Non-levy of penalty	56	10.13
6	Short levy due to incorrect determination of turnover	21	18.69
7	Irregular allowance of concessional rate of tax	14	1.14
8	Non-levy or short levy of additional tax and surcharge	3	0.29
9	Non-levy of penalty for excess collection of tax/mistake in computation	9	2.57
10	Other cases	25	30.33
<b>Total</b>		<b>400</b>	<b>470.62</b>

During the course of the year, the Department accepted under-assessment and other deficiencies of ₹ 324.03 crore in 62 cases pointed out by us during 2010-11. At the instance of audit, during 2010-11, the Department effected recovery of ₹ 4.17 crore involved in six cases, of which ₹ 4.13 crore involved in one case was pointed out by us during 2010-11 and the rest in earlier years.

In this Chapter we present a few illustrative cases including a review on **“Utilisation of declaration forms in inter-State trade and commerce”** having recoverable financial implication of ₹ 320.19 crore, of which the Government/Department accepted audit observations of ₹ 320.02 crore. These are discussed in the succeeding paragraphs.

## 2.10 Utilisation of declaration forms in inter-State trade and commerce

### Highlights

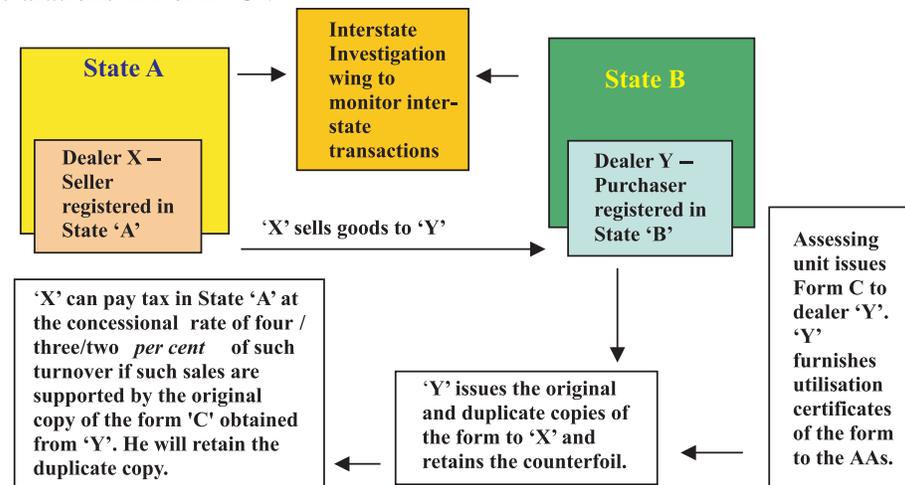
- There was no system in place for physical verification of central declaration forms which resulted in shortage in the number and risk of misuse of these forms. This is fraught with the possibility of loss of revenue.  
**(Paragraphs 2.10.7 and 2.10.8)**
- Data was not uploaded on the Tax Information Exchange System (TINXSYS) website.  
**(Paragraph 2.10.10.3)**
- Non-verification of utilisation of forms while scrutinising returns resulted in non/short levy of central sales tax (CST) of ₹ 3.55 crore including penalty of ₹ 2.40 crore.  
**(Paragraph 2.10.12)**
- Cross-verification of data/information received from other States indicated non/short accounting of purchase/stock receipt of ₹ 8.51 crore by four dealers of four Commercial taxes circles of the State during the period from 2004-05 to 2008-09 which resulted in short levy of CST of ₹ 2.86 crore including penalty of ₹ 2.04 crore.  
**(Paragraphs 2.10.13.1 and 2.10.13.2)**
- Cross-verification of data/information received from other States indicated that during 2006-08, nine dealers of five Commercial taxes circles of the State non/short accounted sales turnover of ₹ 24.62 crore, resulting in short-levy of CST of ₹ 2.96 crore including penalty of ₹ 1.97 crore.  
**(Paragraph 2.10.13.3)**
- Incorrect allowance of concessions/exemptions by the assessing officers in the assessments of 20 dealers of nine Commercial taxes circles resulted in short levy of CST of ₹ 24.10 crore.  
**(Paragraph 2.10.14.1)**
- Cross-verification of purchase/stock receipts of edible oil, iron ore, motor parts, marble and Fast Moving Commodity Goods (FMCG) worth ₹ 28.56 crore received from other States during the period from 2003-04 to 2008-09, indicated utilisation of 96 unauthorised C form and 21 unauthorised F form by 47 dealers registered in 15 commercial taxes circles of the State which resulted in non-levy of CST amounting to ₹ 4.88 crore including penalty of ₹ 3.48 crore.  
**(Paragraph 2.10.14.3)**
- The system of furnishing of declaration forms while submitting returns was not made mandatory resulting in non-levy of interest and penalty of ₹ 53.17 crore in case of 13 dealers.  
**(Paragraph 2.10.15)**

### 2.10.1 Introduction

Under the Central Sales Tax (CST) Act, 1956 read with the Central Sales Tax (Registration and Turnover) Rules (CST Rules) 1957 and the Central Sales Tax (Jharkhand) Rules 2006, registered dealers are eligible to certain concessions and exemptions of tax on inter-State transactions on submission of prescribed declarations in Forms 'C' and Form 'F' etc. The State Government grants these incentives to dealers for furtherance of trade and commerce. It is the responsibility of the Commercial Taxes Department (CTD), Government of Jharkhand to ensure proper accounting of these declaration forms and to take adequate safeguards against misutilisation of declaration forms/certificates on which tax relief is allowed involving large amounts of revenue to the State exchequer.

#### Form 'C'

Under the CST Act, every registered dealer who in course of inter-State trade and commerce sells to another registered dealer, goods of the class or classes, specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at four *per cent* upto March 2007, three *per cent* from April 2007 to May 2008 and two *per cent* from June 2008 of such turnover provided such sales are supported by declarations in Form 'C'.

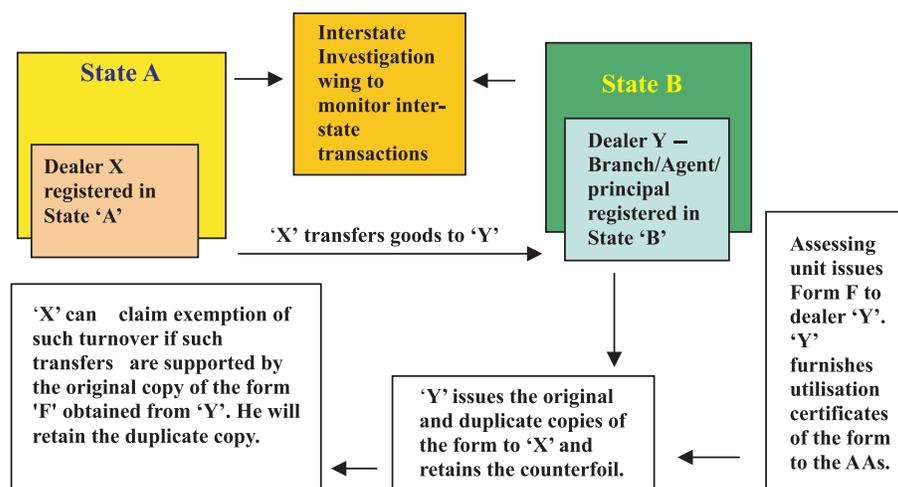


#### Form 'F'

Under Section 6A of CST (Amendment) Act 1972, transfer of goods claimed other than by way of sale made by a registered dealer to any other place of his business located outside the State or his agent or principal in other States is exempt from levy of tax on production of prescribed declarations in Form 'F', duly filled in and signed by the principal as the case may be, along with evidence of despatch of such goods. Filing of declaration in Form 'F' was not mandatory upto May 2002. However, the CST Act provided for the Assessing Authority (AA) to make such enquiries as he deemed necessary to satisfy himself about bonafides of the transfer of such sale *patties*<sup>7</sup>, dispatch particulars, way bills etc. Form F has been prescribed under Rule

<sup>7</sup> *Sale patties*: Sale notes defining transfer of title of documents with full particulars in the course of inter-State consignment sale of goods.

12(5) of the CST Rules, 1957. According to the proviso to Rule 12 (5), a single form F can be issued for all the transactions of transfer in one month.



### 2.10.2 Audit objectives

The objectives of the review were to assess whether:

- there exists a foolproof system for custody and issue of the declaration forms;
- exemption and concession of tax granted by the AAs was supported by original declaration forms;
- there is a system for ascertaining genuineness of the forms in order to prevent evasion of tax;
- there is a system of uploading the particulars in the TINXSYS website and the data available therein is utilised for verifying the correctness of the forms;
- appropriate steps are taken on receipt and detection of fake, invalid and defective (without proper and insufficient details) forms; and
- there exists an effective and adequate internal control mechanism.

### 2.10.3 Audit criteria

The review was conducted with reference to the provisions made under the following Acts and Rules:

- Central Sales Tax Act, 1956;
- Central Sales Tax (Registration and Turnover) Rules, 1957;
- Central Sales Tax (Jharkhand ) Rules, 2006;
- Jharkhand Value Added Tax Act, 2005;
- Jharkhand Value Added Tax Rules, 2006;
- Jharkhand Finance Act, 2001 and
- Executive and departmental orders issued from time to time.

### 2.10.4 Audit scope and methodology

The review on “Utilisation of declaration forms in inter-State trade and commerce” was conducted in course of audit of the nine Commercial taxes circles<sup>8</sup> from November 2010 to August 2011 and in respect of the assessments finalised during 2006-11 in the current as well as in previous audit cycle. Besides, declaration forms C and F issued by the Department were cross-verified on a sample basis in all the 28 circles in a phased<sup>9</sup> manner. The system of printing, custody, issue and utilisation of CST declaration forms in the State were also scrutinised from apex level to circle levels and the results of scrutiny have been included in the review.

### 2.10.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Commercial Taxes Department in providing the necessary records for audit. Before taking up the review, an entry conference was held on 7 March 2011 with the Secretary-cum-Commissioner, Commercial Taxes Department, Jharkhand in which the audit objectives, scope and methodology was discussed. The draft review report was forwarded to the Government/Department in August 2011 and discussed in the exit conference held on 12 November 2011 which was attended by the Secretary-cum - Commissioner and Additional Commissioner, Commercial Taxes Department. The formal reply of the Department received during the exit conference has been incorporated in the review.

### 2.10.6 Trend of revenue

The CST *vis-à-vis* sales tax/VAT collection of the State during 2006-11 was as under:

(₹ in crore)

Year	Revenue as reported by the department	Sales tax revenue as per Finance Accounts	CST collection	Percentage of Col.4 to Col.3	Difference between figures as furnished by the department and that of Finance Accounts
1	2	3	4	5	6
2006-07	2,482.60	2,556.90	614.14	24.01	(-) 74.30
2007-08	2,747.33	2,845.88	636.09	22.35	(-) 98.55
2008-09	2,893.49	2,996.20	570.58	19.04	(-) 102.71
2009-10	3,581.05	3,597.20	647.41	17.99	(-) 16.15
2010-11	4,468.52	4,473.43	792.29	17.71	(-) 4.91

It would be seen from the above that though rate of CST remained at two *per cent* during 2008-11, the percentage of CST collection decreased from 19.04 to 17.71.

Further, the wide difference between the departmental figures of revenue receipts with those shown in the Finance Accounts of the State Government indicates that there is a need for reconciliation of the figures.

<sup>8</sup> Chirkunda, Deoghar, Dhanbad, Jharia, Katras, Palamu, Pakur, Ranchi East and Ranchi Special.

<sup>9</sup> Phase-I: Collection of forms/data from circles in Jharkhand, Phase-II: Exchange of forms/data with other offices of the Pr. Accountant General/Accountant General of other States and Phase-III: Cross-verification of forms at respective circles in Jharkhand.

The Government in its reply during the exit conference (November 2011) attributed the decline in CST collection to Input Tax Credit (ITC) availment by dealers of CST against purchases within the State, decline in CST rates from four *per cent* to two *per cent* and amendment in Section 8 of the CST Act (April 2007) deleting the provision of double rates in case of sales to unregistered dealers. Regarding difference between departmental figures of revenue collection and that of Finance Accounts, the Government stated that it was due to incorrect booking in revenue major heads. It further stated that necessary amendment has been brought into the JVAT Rules defining colour of challans of different heads to avoid incorrect bookings in future.

## **Audit finding**

### **System deficiencies**

#### **2.10.7 Printing and custody of declaration forms**

The CST declaration forms are printed in the private press for which tenders are invited by the Department. After printing, these forms are received in the Department's central strong room (CSR) situated at Ranchi Treasury. From the CSR, the forms are issued to the DCCT/ACCT of the concerned circles as per their requirement. The DCsCT/ACsCT keep these forms in the respective district treasuries for further distribution to the dealers.

CST declaration forms are obtained by the registered dealers from the AAs, after payment of fee fixed by the Department from time to time. Two registers namely Stock Register and Ledger are maintained in the office of the CCT for keeping accounts of the receipt and circle wise issue of forms respectively. At the circle level, both Stock Register and Ledger are also maintained to keep account of the forms received from the CSR and dealer-wise issue denoting their serial numbers. It is incumbent upon the Department to ensure printing of these forms only after reviewing the existing stock and pace of its issue to avoid any possibility of misuse leading to leakage of revenue.

- As per the provisions of Rule 143 of Bihar Financial Rules (as adopted by Government of Jharkhand), a physical verification of all stores should be made at least once in every year under rules prescribed by heads of departments concerned.

We noticed that physical verification of the forms at CSR was neither prescribed nor conducted during the period covered under the audit. Thus, there was no assurance that forms shown in the stock and ledger registers at different levels were indeed physically available. This considerably increased the risk of non-detection of missing forms and their misuse which may lead to irregular concessions and tax exemptions and consequent loss of revenue to the State Government.

In reply the Government stated during the exit conference (November 2011) that the stock of forms as shown in ledger/stock register were always being verified in the Central Treasury, Ranchi. The reply was not in order as neither any verification certificate of the verifying officer was found recorded in the ledger/stock register nor was the same produced separately to us.

- We noticed that the Department ordered (March 2007) printing of 4,50,000 declaration forms ‘C’ and 2,00,000 declaration forms ‘F’ without inviting any tender and assessing the existing stock/requirement of the circles. The existing stock of ‘C’ and ‘F’ forms as on March 2007 were 2,30,000 and 38,000 respectively and there was no pending indent from the circles for supply of forms.

The year-wise receipt and distribution of declaration form ‘C’ and ‘F’ were as given below:

(Value in numbers)

Year	Opening balance	Receipts	Total	Distribution	Closing balance
<b>Declaration ‘C’</b>					
2006-07	Nil <sup>10</sup>	4,50,000	4,50,000	2,20,000	2,30,000
2007-08	2,30,000	4,50,000	6,80,000	1,86,000	4,94,000
2008-09	4,94,000	Nil	4,94,000	1,20,000	3,74,000
2009-10	3,74,000	Nil	3,74,000	1,10,000	2,64,000
2010-11	2,64,000	Nil	2,64,000	1,46,000	1,18,000
<b>Declaration ‘F’</b>					
2006-07	Nil	1,00,000	1,00,000	62,000	38,000
2007-08	38,000	2,00,000	2,38,000	40,000	1,98,000
2008-09	1,98,000	Nil	1,98,000	26,000	1,72,000
2009-10	1,72,000	Nil	1,72,000	16,000	1,56,000
2010-11	1,56,000	Nil	1,56,000	30,000	1,26,000

The Government in its reply during the exit conference stated (November 2011) that in March 2007 CST forms were printed by M/s Swaraswati Press Limited, Kolkata (Government of West Bengal Enterprise) after obtaining concurrence of the Finance Department and approval of the Finance Minister as it was lone bidder against Notice Inviting Tender issued for printing of forms. It further stated that number of form F printed in March 2007 was 1,00,000 only. However, the reply was not correct as Government referred to the procedure followed in March-April 2006. In March 2007 fresh printing order for printing 4,50,000 forms C and 2,00,000 forms F was placed to the same printing press at the same rate without inviting tender.

- Our scrutiny of the stock register, ledger and indent file of CST declarations forms maintained at the CCT office indicated that a new stock register was opened on 17 August 2006 with opening balance as Nil. The Stock Register prior to this date was not produced. As such, we could not ascertain the closing balance of the declaration forms prior to 17 August 2006.

### 2.10.8 Issue and accounting of declaration forms by the Department

Our scrutiny revealed that the Stock Registers of CST forms maintained in the CCT office exhibit box-wise stock of forms. Further, forms are not issued chronologically.

<sup>10</sup> A new stock register was opened on 17 August 2006 with opening balance as nil. The stock register prior to this date was not produced.

We found that as per the stock register of the CCT office, two boxes containing 2,000 Forms C each were shown issued to Ranchi Division on 25 August 2006. But the ledger showed issue of one box of form C to Palamu circle containing form numbers 329001 to 331000 only resulting in shortage of one box of 2,000 Forms C. In reply, the Government stated during the exit conference (November 2011) that the forms were issued to the Commercial taxes circle, Gumla of Ranchi division. However, due to clerical error the same was recorded in the ledger folio of form F instead of form C. Absence of periodical physical verification coupled with non-issue of forms chronologically led to non-detection of the above by the Department.

**The Government may ensure that forms are printed only after reviewing the existing stock, install a mechanism for periodic verification of stock registers of declaration forms and ensure issue of forms chronologically to prevent possible misuse. They may also prescribe standard formats of stock register and ledger.**

#### **2.10.9 Non prescription of standard register/ledger and periodical report/return**

We noticed that no standard formats have been prescribed by the CCT for maintaining stock registers and ledgers of CST declaration forms which resulted in usage of different formats by the Commercial taxes circles. For instance, stock and ledger are maintained in the same register in Deoghar circle.

We also noticed that no periodical report and returns were prescribed to be submitted either to the in-charge of the circle or to the CCT. Thus, the position of stock could not be monitored by the CCT.

The Government in its reply during the exit conference (November 2011) cited forms to be maintained by the dealers for CST transactions under CST (Jharkhand) Rule 2006. However, our observation was concerned with the Commercial taxes circle offices.

#### **2.10.10 Enforcement measures**

##### **2.10.10.1 Internal Audit**

Internal audit is defined as the control of all controls as it is a means to ensure that the prescribed systems were functioning reasonably well. The Finance (Audit) Department works as the internal auditor of the CTD. By an order of May 1960, the internal audit parties are required to conduct 100 *per cent* audit of all assessments finalised, examining *inter-alia* assessment orders, issue of demand notices, amount of tax collected and verification of deposit of amount in treasury. We observed that no internal audit had been conducted in the office of the Secretary-cum-Commissioner, CTD and in circles for the last five years.

The Government in its reply during the exit conference (November 2011) stated that after the audit observation was raised, the audit guidelines were notified (July 2011).

### **2.10.10.2 Working of Bureau of Investigation (IB)**

The JVAT Act provides for establishment of the Bureau of Investigation from 1 April 2006 to function under the control and supervision of the CCT and to discharge such duties as may be assigned to it. We observed that no provision exists in the JVAT Act and JVAT Rules for a system of regular sample cross-verification of CST declaration forms. However, by an order issued in August 2009 by the CCT, the Divisional IB under the JCCT (Administration) was entrusted with, among other things, the task of verifying the correctness of declaration forms.

We noticed that though the IB was established in April 2006, the notification regarding assignment of functions to it, under the provisions of the JVAT Act, was issued only in August 2009. We called for the information regarding assignment of work to/work done by the IB and reports and returns furnished by them to CCT during the period 2006-07 to 2010-11 but no information was furnished to us. As such, we were unable to comment on the efficacy of the functioning of the IB.

**The Government may consider strengthening the functions of IB for regular survey, collection of data/information regarding purchase/sale and creation of database from departments and undertakings of State/Central Government for cross-verification of transactions.**

### **2.10.10.3 Non-utilisation of TINXSYS website**

Tax Information Exchange System (TINXSYS) is a centralised exchange of all inter-State dealers spread across the various States and Union territories (UTs) of India. TINXSYS is an exchange authored by the Empowered Committee (EC) of State Finance Ministers as a repository of inter-State transactions taking place among various States and UTs.

The website was designed to help the CTDs of various States and UTs to monitor the inter-State trade. TINXSYS can be used by any dealer to verify the counterpart inter-State dealer in any other State. Apart from dealer verification, CTD officials use TINXSYS for verification of central statutory forms issued by other State CTDs and submitted to them by the dealers in support of claim for concessions from the database available in the website. TINXSYS also provides MIS (Management Information System) and Business Intelligence Reports to the CTDs to monitor inter-State trade movement and enables the EC to monitor the trends in inter-State trade.

We noticed that though ₹ 32 lakh was paid (August 2009) to the Government of India for TINXSYS as share of Jharkhand Government for uploading CST declaration forms, details of declaration forms and their utilisation of declaration forms were not uploaded (July 2011) and thus, the shared facility could not be utilised as yet.

The Government in its reply during the exit conference (November 2011) accepted the audit observation of non-utilisation of TINXSYS and stated that a new Rule 11 A was inserted in CST (Jharkhand) Rule 2006 for online downloading of CST

forms and it would be implemented by the end of 2011. It further stated that the forms would be automatically uploaded in TINXSYS after their online issuance.

**The Government may consider uploading data of dealers and forms issued to them along with a system of verification of forms submitted by them with the database available in TINXSYS at the time of assessment.**

### **2.10.11 Computerisation**

The National Informatics Centre (NIC) at the request of the Department developed a web-based VAT application software namely VICTORY (VAT Information Computerisation to Optimize Revenue Yields) which was commissioned on 1 April 2006. The application software (VICTORY) has five modules of which one is the Form Control System.

We noticed that the Form Control System module was not made operational by NIC. This resulted in non-issuance of online declaration forms both under the CST Act and JVAT Act.

The Department did not furnish any documented plan to phase out the manual system and change over to the computerised system. The system developed was being used for data entry of returns and all other activities related to assessment are manually carried out. Therefore the objective of discontinuance of manual registers and improving the efficiency of the working system of the Department were not achieved.

The Government in its reply during the exit conference stated (November 2011) that the Department was in process of computerisation. Online filing of returns, payment of taxes and registration modules were functioning. Online issue of forms would be launched within this year.

### ***Compliance deficiencies***

#### **2.10.12 Short accounting of goods imported through use of declaration forms**

Under the CST Act read with the JF Act, 2001 and JVAT Act, 2005, if the dealer has concealed, omitted or failed to disclose willfully the particulars of turnover or has furnished incorrect particular of such turnover, the competent authority shall assess or re-assess the amount of tax due from the dealer and shall direct the dealer to pay, besides the tax assessed on escaped turnover, as penalty a sum equal to twice the amount of additional tax assessed on the escaped turnover under the JVAT Act and maximum penalty of 300 *per cent* under the JF Act.

We noticed in 14 Commercial taxes circles<sup>11</sup> that 22 dealers filed their returns for a taxable turnover of ₹ 117.58 crore during 2004-09. The assessments were finalised (between June 2007 and March 2010) on the basis of returns filed. However, as per information available

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<sup>11</sup> Bokaro, Chirkunda, Dhanbad, Dhanbad Urban, Jamshedpur, Jamshedpur Urban, Jharia, Katras, Palamu, Ramgarh, Ranchi East, Ranchi South, Ranchi Special and Singbhum.

in the assessment records viz, utilisation statements of form 'C', blue<sup>12</sup> and green<sup>13</sup> road permits, the dealers had actually sold/purchased goods valued at ₹ 134.13 crore. Thus, the dealers concealed taxable turnover of ₹ 16.55 crore. Though the relevant information was available in the assessment records of the concerned dealers, the AAs did not cross-verify the information with these records. This resulted in non/short levy of tax of ₹ 3.55 crore including mandatory penalty of ₹ 2.40 crore.

A few specific cases are mentioned in the following table:

(₹ in crore)				
Name of the circle TIN of the dealer	Period Month of assessment	Nature of observations	Suppressed turnover Rate of tax (%)	Short levy of VAT Penalty
Bokaro 20901405286	2007-08 March 2010	The dealer actually purchased goods from outside the State worth ₹ 13.75 crore (utilisation and requisition of form C) but accounted for ₹ 6.46 crore only.	7.29 4	0.29 0.58
Ranchi East 20770200915	2007-08 March 2010	The dealer received goods worth ₹ 27.10 crore on the strength of 79 numbers of Form 'F' and purchased goods for ₹ 31.14 lakh on the strength of Form 'C'. Thus, total receipt worked out to ₹ 27.41 crore but accounted for ₹ 25.52 crore only, on which assessment was made.	1.89 12.5	0.24 0.48
Jamshedpur Urban JU-112 (R)	2005-06 March 2009	The dealer actually purchased goods worth ₹ 1.52 crore on the strength of six declarations in form C but accounted for ₹ 17.71 lakh only.	1.34 8	0.11 0.33
Jharia 20791805374	2008-09 March 2010	Pan Masala valued at ₹ 1.88 crore was purchased by utilising green road permits and form C, whereas the dealer accounted for ₹ 1.47 crore.	0.41 12.5	0.05 0.10
Katras 20931500627	2006-07 March 2009	The dealer sold goods worth ₹ 50 lakh outside the State on the strength of road permit which were not covered under forms 'C'.	0.50 10	0.05 0.10

The Government in its reply during the exit conference (November 2011) accepted the audit observations and stated that the concerned circles were being directed to follow the same and it will be monitored at the Headquarters level of the Department.

<sup>12</sup> Blue Road permit in form 504B issued for transportation of goods to outside the State.

<sup>13</sup> Green Road Permit in form 504G issued for transportation of goods from outside the State.

## 2.10.13 Variation in the figures of transaction between issuing and utilising dealers

The JVAT Act and rules made thereunder provide that if the prescribed authority has reasons to believe that the dealer in order to evade or avoid payment of tax has concealed, omitted or failed to disclose wilfully particulars of such turnover or has furnished incorrect particulars of such turnover, the said authority shall assess or reassess the amount of tax due from him in respect of such turnover and shall direct the dealer to pay besides the tax assessed on escaped turnover, penalty equal to twice the amount of additional tax assessed.

**2.10.13.1** Cross verification of data on purchase/stock receipt with records of four dealers of four Commercial taxes circles<sup>14</sup> assessed/re-assessed between January 2009 and September 2011 indicated that the dealers had shown purchase/stock receipt turnover as ₹ 15.17 crore during 2006-07 and 2008-09 against the actual purchase/stock receipt of

₹ 17.42 crore. This resulted in suppression of taxable turnover of ₹ 2.25 crore and consequent short levy of tax of ₹ 80.79 lakh including mandatory penalty of ₹ 53.86 lakh.

Under the JF Act, if the prescribed authority has reason to believe that the dealer has concealed, omitted or failed to disclose willfully the particulars of turnover or has furnished incorrect particulars of such turnover, the said authority shall assess or reassess the amount of tax due from the dealer in respect of such turnover and shall direct the dealer to pay besides the tax assessed on escaped turnover, penalty not exceeding three times but not less than an amount equivalent to the amount of tax on the escaped turnover.

**2.10.13.2** Our cross-verification of data on purchase/stock receipt with records of one dealer of Jamshedpur Commercial taxes circle assessed in March 2009 indicated that the dealers had shown purchase/stock receipt turnover as ₹ 7.51 crore during 2004-05 against the actual purchase/stock receipt of ₹ 13.77 crore. This resulted in suppression of taxable turnover of ₹ 6.26 crore and consequent short levy of tax of ₹ 2.05 crore including mandatory penalty and surcharge of ₹ 1.50 crore.

**2.10.13.3** Cross-verification of data received from five States<sup>15</sup> on sale/stock transfer by nine dealers registered in five Commercial taxes circles<sup>16</sup> of the State indicated that the dealers had been allowed, between March 2009 and March 2010, concession/exemption against sale/stock transfer of ₹ 13.73 crore during 2006-08. However, the actual sale/stock transfer was ₹ 38.35 crore. This resulted in suppression of taxable turnover of ₹ 24.62 crore and

<sup>14</sup> Hazaribag, Jamshedpur, Palamu and Ranchi South.

<sup>15</sup> Bihar, Chhattisgarh, Orissa, Uttar Pradesh and West Bengal.

<sup>16</sup> Chirkunda, Dhanbad, Jharia, Palamu and Ranchi Special.

consequent short levy of tax of ₹ 2.96 crore including mandatory penalty of ₹ 1.97 crore.

## 2.10.14 Utilisation of declaration forms

### 2.10.14.1 Grant of incorrect concessional rate of tax on inter-State sales not supported by declaration forms

- We noticed in case of five dealers in five Commercial taxes circles<sup>17</sup> that the AAs while finalising the assessments (between June 2008 and March 2010) for the period 2005-08 incorrectly allowed concessional rate of tax on taxable turnover of ₹ 3.61 crore and levied tax of ₹ 11.67 lakh instead of correct amount of ₹ 24.09 lakh as the value of forms, on which concessions were allowed, were either inclusive of tax element or were deficient in value. This resulted in short levy of tax of ₹ 12.42 lakh.
- We noticed in case of 15 dealers in six Commercial taxes circles<sup>18</sup> that the AAs while finalising the assessments (between February 2008 and April 2010) for the period 2006-08 disallowed concessional rate of tax on taxable turnover of ₹ 579.30 crore due to non-furnishing of declarations in Form 'C' but incorrectly levied tax of ₹ 23.24 crore instead of ₹ 47.22 crore. This resulted in short levy of tax of ₹ 23.98 crore. A few illustrative cases are mentioned below:

(₹ in crore)			
Name of the circle TIN/Registration number of the dealer	Period Month of assessment	Nature of observations	Short levy of tax
Ranchi West 20790305657	2006-07 February 2009	Due to non-submission of declaration forms 'C', tax was levied incorrectly at the rate of four per cent instead of eight per cent.	21.83
Ranchi South 20280100353	2007-08 March 2010	Due to non-submission of declaration forms 'C', tax was levied incorrectly at the rate of four per cent instead of 12.5 per cent.	0.79
Tenughat 20442201285	2007-08 March 2010	Tax was incorrectly levied at the rate of eight per cent instead of correct rate of 12.5 per cent for non-submission of declaration forms	0.19
Katras KT 1210 (C)	2006-07 February 2009	Due to non-submission of declaration forms 'F', tax was levied incorrectly at the rate of four per cent instead of eight per cent.	0.08

The Government agreed (November 2011) with the audit observations and stated that the concerned circles were being directed to follow the same and it will be monitored from headquarter level.

<sup>17</sup> Chaibasa, Deoghar, Ramgarh, Ranchi Special and Tenughat.

<sup>18</sup> Chaibasa, Katras, Palamu, Ranchi South, Ranchi West and Tenughat.

### 2.10.14.2 Grant of incorrect exemptions on stock transfers of goods not supported by declaration forms

Under the provision of the CST Act, submission of declaration in Form 'F' is mandatory for availing exemption from tax. In case of inter-State stock transfer of declared goods not supported by Form 'F', tax was leviable at twice the rate applicable on sale of such goods in the State. In case of goods, other than the declared goods, tax is leviable at the rate of 10 *per cent* or at the rate applicable in the State, whichever is higher.

We noticed in case of four dealers in three Commercial taxes circles<sup>19</sup> that the AAs while finalising the assessments (between March 2008 and April 2009) for the period 2003-07 allowed exemption from payment of tax on stock transfer outside the State valued at ₹ 11.50 crore though the transactions

were not supported by declarations in form 'F'. This resulted in incorrect allowance of exemption and consequent non-levy of tax of ₹ 1.34 crore.

The Government agreed (November 2011) with audit observations and stated that the concerned circles were being directed to follow the same and it will be monitored from headquarters level.

### 2.10.14.3 Utilisation of unauthorised declaration forms by registered purchasing dealers

Under the CST Act, if any person furnishes a false certificate or declaration forms, the AA will assess, re-assess, collect and enforce payment of tax, including any interest or penalty, payable by a dealer under this Act as if the tax or interest or penalty payable by such a dealer under this Act is a tax or interest or penalty payable under the general sales tax law of the State. The repealed JF Act provided imposition of maximum penalty upto 300 *per cent* while JVAT Act, 2005 provides for penalty twice the amount of additional tax assessed.

• We noticed that 25 dealers registered in 13 Commercial taxes circles<sup>20</sup> received goods from 20 manufacturers of edible oil, motor parts, lubricants, medicine, food products, electronic goods etc., between 2006-09 against 42 forms 'C' and 17 forms 'F'. We verified from ledgers maintained in the respective commercial taxes circles and noticed that these forms were not found issued to these dealers. The AAs also could not detect these

erring dealers while finalising assessments between June 2008 and March 2011. This resulted in a turnover of ₹ 10.38 crore escaping assessment and consequent non-levy of tax of ₹ 1.42 crore including mandatory penalty of ₹ 0.95 crore.

<sup>19</sup> Dhanbad Urban, Deoghar and Ramgarh.

<sup>20</sup> Bokaro, Deoghar, Dhanbad Urban, Dumka, Giridih, Hazaribag, Jamshedpur, Jamshedpur Urban, Koderma, Palamu, Ranchi West, Singhbhum and Tenughat.

- We noticed that 21 dealers registered in nine Commercial taxes circles<sup>21</sup> received edible oil, marble and cement clinker during 2003-06 from 19 manufacturers of other three States<sup>22</sup> against 53 unauthorised 'C' forms and four unauthorised 'F' forms. We verified from ledgers maintained in the respective commercial taxes circles and noticed that these forms were not found issued to these dealers. The AAs also could not detect these erring dealers while finalising assessments between September 2004 and March 2009. This resulted in a turnover of ₹ 18.16 crore escaping assessment and consequent non-levy of tax of ₹ 3.46 crore including mandatory penalty of ₹ 2.53 crore.
- We further noticed that one dealer registered in Hazaribag Commercial taxes circle purchased goods (rice) valued at ₹ 1.81 lakh from Orissa during 2006-07 on the strength of one unauthorised Form 'C'. The assessment was finalised in July 2009. Since rice was exempted from levy of tax in Jharkhand the loss of revenue could not be quantified.

#### 2.10.14.4 Utilisation of unauthorised declaration forms by unregistered purchasing dealers

Under the CST Act, if any person, not being a registered dealer, falsely represents when purchasing goods in the course of inter-State trade or commerce that he is a registered dealer, the authority competent to grant to him a certificate of registration under this Act, may by order in writing, impose upon him by way of penalty a sum not exceeding one-and-a-half times the tax which would have been levied under the Act.

We noticed in Hazaribag and Palamu Commercial taxes circles that six dealers utilised 11 numbers of unauthorised form 'C' to purchase edible oil worth ₹ 3.32 crore during the period from 2005 - 06 to 2007-08. But the AAs stated that the dealers

were not registered in the circle. This resulted in non-levy of tax amounting to ₹ 33.15 lakh including maximum penalty of ₹ 19.89 lakh.

#### 2.10.14.5 Utilisation of unauthorised declaration forms by selling dealers

We noticed that seven dealers registered in four Commercial taxes circles<sup>23</sup> sold graphite, hard coke, machineries and hardware valued at ₹ 1.73 crore to the dealers of five States<sup>24</sup> against 23 CST declarations in form 'C' during the period 2006-08. However, results of cross-verification indicated that the above forms were not issued by the dealers of the outstation circles and thus, were fake. The AAs could not detect these fake declarations at the time of assessment between March

<sup>21</sup> Chaibasa, Deoghar, Dumka, Giridih, Hazaribag, Jamshedpur, Katras, Palamu and Singhbhum.

<sup>22</sup> Andhra Pradesh (2), Orissa (2) and Rajasthan (15).

<sup>23</sup> Chirkunda, Dhanbad, Jharia and Palamu.

<sup>24</sup> Chhattisgarh, Orissa, Maharashtra, Uttar Pradesh and West Bengal.

2009 and March 2010 due to non-verification of these forms through TINXSYS. This resulted in short-levy of tax of ₹ 4.24 lakh.

#### 2.10.14.6 Incorrect allowance of concessions/exemptions due to acceptance of invalid form

Under the CST Act and rules made thereunder, tax on branch transfer/inter-State sales of goods made to registered dealers supported by prescribed declaration forms 'F'/'C' is exempt/leviable at concessional rate of tax applicable from time to time. Furnishing of Form 'C' is made mandatory with effect from 11 May 2002. Further, a single declaration in Form 'C' shall cover transactions affected during a period of one quarter (three calendar months) only.

We noticed in seven Commercial taxes circles<sup>25</sup> that in case of 12 dealers, the AAs while finalising the assessments (between April 2008 and April 2010) for the period 2005-08 allowed concession/exemption from levy of tax on production of 118 declarations forms 'C'/'F' containing transactions valued

at ₹ 31.43 crore. However, all these forms were liable to be rejected on the grounds of submission of invalid forms; submission of duplicate copy of forms; submission of forms issued in the name(s) of another dealer; submission of forms not containing printed serial number(s); submission of forms being issued after the date of assessment; submission of forms covering transactions for more than a quarter and submission of forms not containing seller's name and registration number. Exemption/concessional rate of tax granted on account of acceptance of such defective forms resulted in short -levy of tax of ₹ 2.31 crore. A few specific cases are mentioned in the following table:

(₹ in lakh)

Name of the circle TIN/Registration number of the dealer	Period Month of assessment	Nature of observations	Short levy of tax
Tenughat TG 612 (C)	2007-08 March 2010	Out of 296 declaration forms C furnished by the dealer, 59 forms amounting to ₹ 9.80 crore were liable to be rejected as these were either issued in the name of other dealers or were blank forms or the forms were issued after the date of assessment.	93.05
Ranchi Special 20070402090	2007-08 March 2010	The dealer was allowed incorrect exemption on six numbers of duplicate declaration forms 'F' for ₹ 3.65 crore.	45.64
Chirkunda 20662000277	2007-08 February 2010	Out of 39 declaration forms 'C' furnished by the dealer, 14 forms amounting to ₹ 2.55 crore were liable to be rejected as these were issued in the name of other dealer/were blank forms/covering transactions of one quarter in more than one Form or one Form covering transactions of more than one quarter.	24.18

<sup>25</sup> Chaibasa, Chirkunda, Jamshedpur, Jharia, Palamu, Ranchi Special and Tenughat.

(₹ in lakh)			
Name of the circle TIN/Registration number of the dealer	Period Month of assessment	Nature of observations	Short levy of tax
Chaibasa CB-1116 (C)	2005-06 February 2010	Out of 50 declaration forms 'C' furnished by the dealer, three forms amounting to ₹ 2.25 crore were issued in the name of TISCO, Kolkata instead of TISCO, Noamundi, Chaibasa. Hence the forms were liable to be rejected but concessional rate of tax was allowed by the assessing authority. This resulted in short levy of tax of ₹ 15.74 lakh including surcharge of ₹ 2.25 lakh.	15.74
Ranchi Special 20660402202	2006-07 April 2008	The dealer had furnished form 'F' bearing no. 03Q 499609 for ₹ 15.07 lakh which was duplicate. However, the assessing authority incorrectly allowed exemption on it.	13.13

Though the Government in its reply during the exit conference (November 2011) accepted the audit observations but it did not furnish specific reply about realisation of short levy of taxes.

#### 2.10.14.7 Misuse of CST declaration forms

Under the CST Act, a registered dealer can purchase goods from outside the State at concessional rate of tax by using prescribed declarations for goods intended for resale by him or for use by him in the manufacture or processing of goods for sale or in mining or in the generation of distribution of electricity or any other form of power or in telecommunication network provided such goods are covered by his registration certificate (RC). Failing which, the dealer is liable to be prosecuted or in lieu of prosecution, the AA may impose upon him a penalty not exceeding one and a half times of the tax leviable as if the sale is not supported by the prescribed declaration in Form 'C'. A contractor can also avail the facility in the capacity of a dealer.

We noticed in Dhanbad Commercial taxes circle that a dealer during 2007-08 purchased B-Hoe Loader valued at ₹ 18.36 lakh on concessional rate of tax by utilising declarations in Form 'C' though the goods were not covered by his Registration Certificate. Further, during 2007-08, another dealer registered as a works contractor purchased High Speed Diesel (HSD), W beams, safety guards and auto spares valued at ₹ 16.82 crore and ₹ 65.47

lakh respectively at concessional rate of tax by utilising form 'C' and consumed the same which was not admissible as per the provisions of the CST Act. It has judicially been held<sup>26</sup> that a works contractor is eligible to purchase goods from

<sup>26</sup> BeeKay Engineering Corporation Vrs State of Bihar (1992) 87 STC 509 Patna.

outside the State at concessional rate by using form 'C' provided the goods are intended for re-sale. The AAs while finalising the assessments (between January and March 2010) neither verified the RC nor issued C forms correctly. This resulted in unauthorised use of declarations in form 'C' and consequential short levy of tax of ₹ 8.50 crore including penalty of ₹ 5.10 crore.

Though the Government in its reply during the exit conference (November 2011) accepted the audit observations but it did not furnish specific reply about realisation of short levy of taxes.

### **2.10.15 Under-assessment of inter-State sale**

The Jharkhand Value Added Tax (JVAT) Rules stipulates submission of all CST declarations forms by the end of December of next financial year. However, the CST (Jharkhand) Rules provide for furnishing of declaration forms upto the time of assessment (to be finalised within two years under JVAT Act) and even after assessment upto a particular period as would be allowed by the AA. The two aforesaid provisions are contradictory to each other. Absence of provision of mandatory furnishing of declaration forms along with the returns might result in short payment of tax due to submission of incorrect particulars of transactions in the returns.

During scrutiny, we came across several cases where the dealers admitted payment of concessional rate of tax in their returns but failed to furnish declaration forms at the time of assessment. Though the AAs assessed full rate of tax, they did not levy interest and penalty as per the provisions of the CST Act as indicated below:

Under JVAT Act read with the CST Act, if a dealer fails, without sufficient cause, to pay the amount of tax due as per the returns for any tax period or exemption/deduction and any other rebate not supported by requisite evidence is disallowed by the AA, interest at the rate of one *per cent* and penalty at the rate of two *per cent* on the amount of additional tax assessed are leviable. Interest is payable from the date of tax payable to the date of payment or the date of order whichever is earlier.

We noticed in four Commercial taxes circles<sup>27</sup> that 13 dealers, engaged in the business of coal and iron insert, returned inter-State sale of ₹ 1481.10 crore during 2006-08 at a concessional rate of tax of ₹ 57.50 crore. As the dealers did not furnish declarations in form 'C'

at the time of assessment, the AAs while finalising the assessments (between March 2009 and April 2010) levied tax of ₹ 120.89 crore accordingly. Though tax at full rate was levied, the AAs did not levy interest and penalty on the balance amount of ₹ 63.39 crore. This resulted in non-levy of interest and penalty of ₹ 53.17 crore.

The Government in its reply during the exit conference (November 2011) accepted the audit observation and also confirmed that Section 9(1) of CST Act deals with the Section 30 of JVAT Act for levying of interest and penalties under CST Act.

<sup>27</sup> Chirkunda, Dhanbad Urban, Jharia and Katras.

The Government further stated that following audit observation, a new rule 4A had been inserted in CST (Jharkhand) Rule (July 2011) for furnishing of CST forms for each quarter on or before the 20<sup>th</sup> day of the month after the end of the succeeding respective quarter.

#### **2.10.16 Conclusion**

The Department did not take adequate action in either prescribing internal control procedures/measures or effectively enforcing existing control procedures in respect of CST leading to leakage of revenue. The IB wing, which was entrusted with the task of verification of various declaration forms as well as inter-departmental cross-verification of data/information remained non-functional. Internal audit and tax audit, which are management tools for ensuring effective functioning of the Department and plugging leakages of revenue, was not operational. The review indicated that the deficiencies, mistakes, omissions which appeared in the report of Comptroller and Auditor General of India in earlier years still persisted in the working of the CTD in respect of CST receipts.

#### **2.10.17 Summary of recommendations**

The Government may consider:

- to standardise formats for stock register/ledger of central declaration forms for the circles and ensure issue of forms chronologically;
- to strengthen Tax Audit wing, functions of IB for regular survey, collection of data/information regarding purchase, sale and creation of database from departments and undertakings of State/Central Government for cross-verification of transactions;
- uploading the data of dealers and forms issued to them along with a system of verification of forms submitted by them with the database available in TINXSYS at the time of assessment; and
- to spell out a definite timeframe to switchover from manual system to online system after getting the departmental website and data-centre certified.

## 2.11 Other audit observations

Our scrutiny of assessment records of Sales tax and Value added tax (VAT) indicated several cases of non-observance of the provisions of the Acts/Rules and notifications issued thereunder, suppression of sales/purchase turnover, non registration of dealers, turnover escaping assessment, non/short levy of tax/penalty, incorrect adjustment of input tax credit (ITC), incorrect application of rate of tax etc., as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of assessing authorities (AAs) are pointed out by us each year, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit.

## 2.12 Results of cross-verification

The JVAT Act and Rules made thereunder provide that for widening the tax base the Circle in-charge and Investigation Bureau shall identify through survey, those dealers who though liable to pay tax under the Act, remained unregistered.

During our scrutiny we detected short realisation of revenue of ₹ 7.68 crore due to non-conducting of survey and cross verifying the information available in the records of other departments of the State Government by the AAs as discussed in paragraphs 2.12.1.1 to 2.12.1.2.

### 2.12.1 Suppression of sales turnover under JVAT/JF Act

The JVAT Act provides that if the prescribed authority has reason to believe that a dealer has failed to furnish a return or has furnished an incomplete or incorrect return with a view to avoid or evade payment of tax, he shall proceed to assess or re-assess the amount of tax due from the dealer on account of such evasion and shall direct the dealer to pay, besides the tax assessed on escaped turnover, penalty of a sum equivalent to twice the amount of the additional tax so assessed.

**2.12.1.1** We collected data relating to dispatch of iron ore from the District Mining Office (DMO), Chaibasa and cross verified the same with the records of Chaibasa Commercial taxes circle.

We noticed that two mining lessees of the Chaibasa Commercial taxes circle, had shown dispatch of iron ore of 28.78 lakh

metric tonne in their trading accounts during 2007-08 and were assessed accordingly in March 2010. However, the records of the DMO, Chaibasa indicated that the lessees had dispatched 30.38 lakh metric tonne of iron ore during the period. Thus, there was suppression of 1.60 lakh metric tonne valued at ₹ 17.43 crore<sup>28</sup>. This resulted in under assessment of tax of

<sup>28</sup> Suppressed value = A+B where,

Rate of Iron ore = value of sale/quantity dispatched = 1433285632.45/1835950.82 = 780.68 per MT thus, value of goods = 128892.32 x 780.68 = ₹ 100623656. 38-(A)

Rate of Iron ore = value of sale/quantity dispatched = 2492001346.84 / 1042203.15 = ₹ 2391.09 per MT thus, value of goods = 30796.854 x 2391.09 = ₹ 73638040.07 - (B)

₹ 2.09 crore including mandatory penalty of ₹ 1.39 crore.

After we pointed this out (October 2010), the AA, in one case, revised (December 2011) the assessment and raised additional demand of ₹ 1.21 crore, while in the other case it was stated (October 2010) that the matter would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

Under the JF Act, if the dealer has concealed, omitted or failed to disclose wilfully the particulars of turnover or has furnished incorrect particulars of such turnover, the prescribed authority shall assess or reassess the amount of tax due from the dealer and shall direct the dealer to pay, besides the tax assessed on escaped turnover, penalty not exceeding three times but not less than an amount equivalent to the amount of tax on the escaped turnover.

**2.12.1.2** We collected data relating to dispatch of iron ore from the DMO, Chaibasa and cross-verified the same with the records of Chaibasa Commercial taxes circle.

We noticed that a mining lessee of the Chaibasa Commercial taxes circle had shown dispatch of 3.30 lakh metric tonne of iron ore in its trading account during 2005-06 and was assessed

accordingly in April 2010. However, the records of the DMO, Chaibasa indicated that the lessee had dispatched iron ore of 7.32 lakh metric tonne during the period. Thus, there was suppression of 4.02 lakh metric tonne valued at ₹ 26.61 crore<sup>29</sup>. This resulted in under assessment of tax of ₹ 5.59 crore including penalty of ₹ 2.66 crore.

We further noticed that there was no co-ordination between the two departments for exchange of information relating to the sale of minerals made by the mining lessees. The AA had also made no effort to obtain the information from the Mining Department in the interest of revenue.

After we pointed this out (October 2010), the AA revised (December 2011) the assessment and raised additional demand of ₹ 5.59 crore. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

**We recommend that the Government may consider evolving a mechanism for inter-departmental exchange of information/data for cross verification purposes in the Commercial Taxes Department to ensure that there is no leakage of revenue.**

<sup>29</sup> Rate of Iron ore = value of sale/quantity dispatched = 218700416 / 330397.960 = ₹ 661.93 per MT thus the suppressed value = 402012.04 x 661.93 = ₹ 266103829.64

## 2.13 Irregularities in determination of turnover

*Turnover means the aggregate of sale prices received or receivable and purchase prices paid or payable during any given period. Correct determination of turnover is essential for proper assessment and levy of taxes due. The gross turnover of a dealer is taken into account for the purpose of determining his liability for tax but for the purposes of actual levy of taxes, certain deductions are allowed in order to arrive at the taxable turnover.*

*We noticed that the AAs while finalising the assessments had not assessed the taxable turnover of the dealers correctly as per the provisions of the Act. This resulted in non/short levy of tax and penalty of ₹ 178.10 crore as mentioned in paragraphs 2.13.1 to 2.13.2.*

### 2.13.1 Suppression of sales/purchase turnover under JVAT/JF Act

Under the JVAT Act read with the CST Act, if the prescribed authority has reasons to believe that the dealer has concealed, omitted or failed to disclose wilfully, the particulars of such turnover or has furnished incorrect particulars of such turnover and thereby the returned figures are below the real amount, the prescribed authority shall proceed to assess or reassess the amount of tax due from the dealer in respect of such turnover and shall direct the dealer to pay, besides the tax assessed on escaped turnover, by way of penalty a sum equivalent to twice the amount of the additional tax so assessed.

**2.13.1.1** We noticed from the assessment records in 12 Commercial taxes circles<sup>30</sup> that 20 dealers had filed their returns for purchase/sale of ₹ 690.66 crore during the years 2006-07 and 2007-08. The assessments were finalised between July 2008 and March 2010 on the basis of returns filed by them. However, our scrutiny of records<sup>31</sup> indicated that the dealers

had actually sold/purchased goods worth ₹ 1087.62 crore. We further noticed that the AAs did not cross-verify the returns with the relevant information/records available in the records submitted by the concerned dealers. Thus, the dealers concealed ₹ 396.96 crore on account of purchase/sale turnover in their returns. The concealment was on account of suppression of sale of detergent, chemicals, coal, silico manganese, MS ingots, empties, petroleum products etc. This resulted in non/short levy of tax of ₹ 160.65 crore including mandatory penalty of ₹ 107.10 crore. We mention specific cases in respect of five dealers in five Commercial taxes circles in the following table:

<sup>30</sup> Bokaro, Deoghar, Dhanbad, Dhanbad Urban, Giridih, Jamshedpur, Lohardaga, Pakur, Palamu, Ramgarh, Ranchi East and Ranchi South.

<sup>31</sup> Utilisation certificate of declaration forms, audited annual accounts, trading and manufacturing account.

(₹ in crore)

Name of the Circle TIN of the dealer	Period Month of assessment	Nature of observations	Suppressed turnover Rate of tax (%)	Short levy of VAT Penalty
<u>Ranchi South</u> 20960100755	2006-07 and <u>2007-08</u> March 2009 and March 2010	Cross-verification with the assessment records of a dealer registered in other commercial taxes circle and utilisation of declarations in form 'C' indicated that the dealer company had actually purchased petroleum products valued at ₹ 144.79 crore but accounted for ₹ 2.76 crore only.	<u>142.03</u> 20, 12.5 and 4	<u>28.20</u> 56.40
<u>Ranchi East</u> 20430200811	<u>2007-08</u> March 2010	The assessment was finalised on the basis of trading account having incorrect opening balance of ₹ 40.95 crore whereas the closing balance of trading account for 2006-07 was ₹ 132.47 crore resulting in suppression of turnover of ₹ 91.52 crore.	<u>91.52</u> 20, 12.5 and 4	<u>17.64</u> 35.28
<u>Ramgarh</u> 20781905166	<u>2007-08</u> January 2010	Tax was levied on the turnover of ₹ 302.17 crore instead of the correct turnover of ₹ 361.15 crore.	<u>58.98</u> 4	<u>2.36</u> 4.72
<u>Giridih</u> 20232305009	<u>2007-08</u> July 2009	Purchases on the basis of information available in the records worked out to ₹ 129.47 crore but the dealer accounted for ₹ 94.32 crore only in the manufacturing and trading account.	<u>35.15</u> 4	<u>1.41</u> 2.82
<u>Dhanbad</u> 20561705175	2006-07 and <u>2007-08</u> February and March 2009	The dealer sold goods valued at ₹ 21.35 crore to a public sector undertaking which was not accounted for in its returns.	<u>21.35</u> 4	<u>0.85</u> 1.70

After we pointed out the cases between July 2009 and May 2011, the AAs of eight Commercial taxes circles<sup>32</sup> revised the assessments (between June and September 2011) and raised additional demand of ₹ 66.62 crore in eight cases. In the remaining cases, the AAs stated between July 2009 and May 2011 that the cases would be reviewed. Further reply has not been received (February 2012).

<sup>32</sup> Bokaro, Dhanbad, Dhanbad Urban, Deoghar, Jamshedpur, Pakur, Ramgarh and Ranchi South.

Under the JF Act read with the CST Act, if the dealer has concealed, omitted or failed to disclose wilfully the particulars of turnover or has furnished incorrect particulars of such turnover, the competent authority shall assess or reassess the amount of tax due from the dealer and shall direct the dealer to pay, besides the tax assessed on escaped turnover, penalty not exceeding three times but not less than an amount equivalent to the amount of tax on the escaped turnover.

**2.13.1.2** We noticed from the assessment records in four Commercial taxes circles<sup>33</sup> that four dealers had filed returns for purchase/sales turnover of ₹ 12 crore during 2004-05 and 2005-06 and the assessments were finalised between September 2007 and March 2010 on the basis of returns filed by them. However, our scrutiny of the information available in the assessment

records viz. audited annual accounts, trading and manufacturing account as well as cross verification with the information collected from other Commercial taxes circle indicated that the dealers had actually sold/purchased goods worth ₹ 81.31 crore. Thus, the dealers had concealed sale/purchase turnover of ₹ 69.31 crore. We further noticed that the AAs did not cross verify the returns with the relevant information/records furnished by the dealers. This resulted in non/short levy of tax of ₹ 15.75 crore including mandatory penalty of ₹ 7.50 crore.

After we pointed out the cases between November 2009 and August 2010, the AAs of three Commercial taxes circles<sup>34</sup>, in three cases, revised the assessment and raised an additional demand of ₹ 15.16 crore (between June and November 2011) while the other AAs stated between January and September 2010 that the cases would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## **2.13.2 Incorrect determination of gross turnover under JVAT/JFAct**

Gross turnover (GTO) for the purpose of levy of sales tax is the aggregate of sale price received and receivable by a dealer including the gross amount received or receivable for the sale of goods made outside the State in the course of inter-State trade or commerce or export. Further, under the JF Act, every dealer is required to pay surcharge at the rate of 10 per cent of the tax so assessed.

**2.13.2.1** We test checked the assessment records of four assesseees registered in four Commercial taxes circles<sup>35</sup>, engaged in business of coal, MS ingots and scraps for the period 2006-07 and 2007-08. Our scrutiny of information available in the assessment records viz. audited annual accounts, trading, profit and

<sup>33</sup> Chirkunda, Jamshedpur, Jamshedpur Urban and Ranchi South.

<sup>34</sup> Jamshedpur, Jamshedpur Urban and Ranchi South.

<sup>35</sup> Chirkunda, Deoghar, Jharia and Katras.

loss accounts, VAT audit report, annual returns etc. indicated that the assessee had actually sold goods valued at ₹ 800.14 crore. However, the AAs while finalising the assessments between March 2009 and February 2010 did not cross verify these records and determined the gross turnover as ₹ 790.86 crore. This resulted in short determination of the GTO of ₹ 9.28 crore and consequent short levy of tax of ₹ 57.13 lakh.

After we pointed out the cases between November 2009 and December 2010, the AAs, Deoghar and Jharia raised additional demand (between August and September 2011) of the entire objected amount, while the AA of Chirkunda Commercial taxes circle stated (January 2010) that difference in gross turnover was due to 'grade slippage' on quantity of coal. The reply was not in order as the AA himself disallowed deduction on account of grade slippage while finalising the assessment. The AA, Katras stated in November 2009 that case would be reviewed. Further reply has not been received (February 2012).

**2.13.2.2** We noticed (March 2010) during test check of the assessment records of an assessee in Deoghar Commercial taxes circle that the AA while finalising the assessment for the period 2004-05 in March 2009, determined GTO as ₹ 33.64 crore. However, our scrutiny of the audited annual accounts of the assessee available in the assessment records indicated that the actual GTO was ₹ 46.46 crore during 2004-05. We further noticed that the AA did not cross-verify the returns with the relevant information submitted by the assessee. This resulted in short determination of the GTO by ₹ 12.82 crore and consequential short levy of tax of ₹ 1.13 crore including surcharge of ₹ 10.26 lakh.

After we pointed out the matter in March 2010, the AA raised additional demand of the entire amount under objection (September 2011). Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.14 Application of incorrect rate of tax under JVAT Act

Under the provisions and schedules of rates of the JVAT Act, components and parts of motor vehicles, leather products, snacks items, kerosene oil sold to other than Public Distribution System (PDS) are taxable at the rate of 12.5 per cent. By a notification issued in March 2007, the rate of tax was reduced to four per cent from the earlier 12.5 per cent on sale of aluminium conductor steel reinforced (ACSR) and earth moving machines. Further, it has judicially been held\* that coal and coal briquettes are two different commercial commodities and briquettes made from coal are taxable separately at the rate of 12.5 per cent.

\* M/s Sonabhadra Fuels vs. CCT UP 14 STC SC

We test checked the assessment records of ten assesseees in four Commercial taxes circles which indicated that the AAs, while finalising the assessments between April 2008 and March 2010 for the period 2006-07 to 2008-09, levied tax at the rate of four per cent on sale of components and parts of motor vehicles, leather products, snacks items, superior kerosene oil (SKO), earth moving machines, ACSR and coal briquettes

valued at ₹ 113.71 crore instead of at the correct rate of 12.5 per cent. Incorrect application of the provisions of the Act and notifications by the AAs resulted in short levy of tax of ₹ 9.66 crore as mentioned in the following table:

(₹ in crore)				
Sl. No.	Number of dealers Circle	Period Month of assessment	Nature of observation	Short levy of tax
1.	Two Ranchi South	2006-07 and 2007-08 Between March 2009 and March 2010	Tax was levied at the incorrect rate of four per cent instead of the correct rate of 12.5 per cent on sale of SKO valued at ₹ 58.61 crore to Oil Marketing Companies (OMCs) during 2006-08 and on sales turnover of ACSR valued at ₹ 8.31 crore for the period from April 2006 to February 2007.	5.69
2.	Four Ranchi Special	2006-07 to 2008-09 Between April 2008 and March 2010	Tax was levied at the incorrect rate of four per cent instead of the correct rate of 12.5 per cent on sale of components and parts of motor vehicles, leather products, snacks items and inverter valued at ₹ 24.62 crore during 2006-07 to 2008-09.	2.09
3.	Three Ranchi East	2006-07 and 2007-08 Between June 2008 and March 2010	Tax was levied at the incorrect rate of four per cent instead of the correct rate of 12.5 per cent on sales turnover of components and parts of motor vehicles of ₹ 1.36 crore and on sale of SKO to OMCs valued at ₹12.44 crore respectively during 2006-08. Further, tax was levied at the incorrect rate of four per cent instead of 12.5 per cent on earth moving machines valued at ₹ 5.63 crore for the period from April 2006 to February 2007.	1.65
4.	One Tenughat	2007-08 March 2010	Tax was levied at the incorrect rate of four per cent instead of the correct rate of 12.5 per cent on sale of coal briquettes valued at ₹ 2.74 crore during 2007-08.	0.23
<b>Total</b>				<b>9.66</b>

After we pointed out the cases between March 2010 and January 2011, the AAs of three Commercial taxes circles<sup>36</sup> raised additional demand of ₹ 7.09 crore in seven cases between September 2010 and September 2011. The AAs in the remaining cases stated between September 2010 and January 2011 that the cases would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

### 2.15 Irregularities in grant of Input Tax Credit

Under the JVAT Act and rules made thereunder, the dealer claiming ITC shall substantiate such claim by producing a declaration in form JVAT 404, issued by the preceding VAT dealer evidencing that goods in question have already been subjected to tax at the preceding stage of their sale. Further, ITC shall not be claimed by the dealer until the tax period in which the dealer receives the invoices in original containing the prescribed particulars of sale evidencing the amount of input tax paid and in cases where the taxable sales of the dealer is five *per cent* or less of the total value, he shall not be eligible to claim ITC for that tax period. The AA shall also direct the dealer to pay by way of penalty a sum equivalent to twice the amount of the incorrect ITC availed.

We test checked (March 2010 to December 2010) the assessment records of three assesseees in three Commercial taxes circles for the period 2006-07 and 2007-08 which indicated that three dealers had claimed inadmissible ITC of ₹ 1.02 crore on intra-State purchases of goods valued at ₹ 67.93 crore. However, the AAs while finalising the assessments between December 2009 and October 2010 allowed the same. This resulted in inadmissible allowance of ITC of ₹ 3.06 crore including mandatory penalty of ₹ 2.04 crore as

mentioned in the following table:

(₹ in lakh)				
Sl. No.	Number of dealers Circle	Period Month of assessment	Nature of observation	Inadmissible ITC Penalty leviable
1.	One Ranchi Special	2006-07 October 2010	The dealer was allowed ITC of ₹ 84.07 lakh on intra-State purchases of goods valued at ₹ 23.36 crore though these purchases were not supported by declaration in form JVAT 404.	<u>84.07</u> 168.14
2.	One Jharia	2007-08 February 2010	The dealer was allowed ITC of ₹ 15.25 lakh on intra-State purchase of goods valued at ₹ 43.79 crore though taxable sales (₹ 10.79 crore) was less than five <i>per cent</i> of the gross turnover (₹ 267.83 crore).	<u>15.25</u> 30.50

<sup>36</sup> Ranchi East, Ranchi Special and Ranchi South.

(₹ in lakh)				
Sl. No.	Number of dealers Circle	Period Month of assessment	Nature of observation	Inadmissible ITC Penalty leviable
3.	One Chaibasa	2007-08 December 2009	ITC of ₹ 2.99 lakh on intra-State purchase of goods valued at ₹ 77.74 lakh made during 2006-07 was not admissible in 2007-08.	2.99 5.98
<b>Total</b>				<b>102.31 204.62</b>

After we pointed out the cases, the concerned AAs raised an additional demand of ₹ 1.35 crore between October 2010 and December 2011. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.16 Irregularities in grant of exemptions

*Exemptions from levy of VAT have been allowed under different provisions of the Act and rules made thereunder with specific objectives, terms and conditions. It is essential that the AA should ensure that the exemptions are granted in accordance with the provisions of the Act and Rules subject to fulfilment of specified terms and conditions.*

*Our scrutiny, however, indicated a number of mistakes in the assessments finalised by the AAs through which incorrect/excess exemptions were granted. A few instances involving non/short levy of tax of ₹ 11.99 crore are mentioned in the following paragraphs:*

Under the JVAT Act and rules framed thereunder, certain deductions are allowed from gross turnover of works contractors for computing their taxable turnover. In the cases where the amount of charges towards labour, services and other like charges are not ascertainable from the terms and conditions of the contract or the accounts furnished, the admissible amount of such charges shall be calculated at the rate of 30 per cent of the total value of the consideration received or receivable in case of civil contracts.

**2.16.1** We test checked the assessment records of three works contractors in Singhbhum and Deoghar Commercial taxes circles for the years 2006-07 and 2007-08 which indicated that these contractors had claimed deductions of ₹ 29.02 crore from their gross turnover of ₹ 38.22 crore on account of labour and other like charges. The AAs, while finalising the assessments

between March 2009 and January 2010, had limited the claim of deductions to ₹ 26.59 crore on the basis of submission of corroborative evidences. However, we calculated the admissible deductions towards labour and other like charges at ₹ 11.47 crore as per the provisions of the Act/Rules. Non-adherence to the provisions of the JVAT Rules by the AAs resulted in allowance of excess deductions of ₹ 15.12

crore from their GTO and consequential short levy of tax of ₹ 1.89 crore.

After we pointed out the cases, the AA of Singhbhum Commercial taxes circle revised (November 2011) the assessment in two cases and raised an additional demand of ₹ 1.74 crore. Further reply has not been received (February 2012).

Under the JVAT Act and rules framed thereunder, claims for exemption from payment of tax on stock transfer of goods from one branch to another in the State is required to be supported by declarations in Form JVAT 506 issued by the transferee. By a notification issued in July 2007, cigarette was deleted from the list of exempted goods and was made taxable at the rate of 12.5 *per cent* with effect from 1 April 2007.

**2.16.2** We noticed from the assessment records between December 2010 and February 2011 in Palamu and Ramgarh Commercial taxes circles that two assessee claimed exemption from levy of tax on stock transfer of coal valued at ₹ 230.32 crore during 2006-07 and 2007-08 to its branches

within the State. The declarations affecting the transfer were neither found on record nor was there any mention of their submission in the assessment finalised by the AAs between January 2009 and February 2010. In absence of these declarations, the assessee were not entitled to exemption from levy of tax. However, the AA incorrectly allowed exemption from payment of tax resulting in short levy of tax of ₹ 9.21 crore.

**2.16.3** We noticed (December 2010) from the assessment records in Deoghar Commercial taxes circle that an assessee claimed and was allowed (February and September 2010) exemption from payment of tax by the AA on sale of cigarette valued at ₹ 7.09 crore during 2007-08 and 2008-09 treating it as exempted good. As cigarette is taxable at the rate of 12.5 *per cent*, grant of incorrect exemption on the part of the AA resulted in short-levy of tax of ₹ 88.58 lakh.

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.17 Incorrect allowance of exemption on transit sale

Under the CST Act, a claim on account of transit sale is exempted from levy of tax, when the sale has been effected by transfer of documents of title of goods during the movement of goods and such subsequent sale should also take place during the same movement occasioned by the previous sale subject to furnishing of declarations in Form 'C' and Form 'EI'.

We noticed between March 2010 and December 2010 from the assessment records that in case of four dealers in three Commercial taxes circles<sup>37</sup> the AAs while finalising the assessments (between February 2009 and March 2010) for the period 2005-06 to 2007-08 allowed

<sup>37</sup> Dhanbad Urban, Jharia and Ranchi Special.

exemption on transit sale valued at ₹ 27.37 crore though the sales were either not supported by Form 'C' or the subsequent sale did not take place during the movement of the goods. This resulted in incorrect allowance of exemption from tax of ₹ 3.23 crore.

After we pointed out the cases between March 2010 and December 2010, the AA of Ranchi Special Commercial taxes circle raised an additional demand of ₹ 4.23 lakh in two cases between November and December 2010, while the other AAs stated between June and December 2010 that the cases would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.18 Irregular grant of exemption on export sale

Under the CST Act and rules framed thereunder, no tax shall be payable on the sale of goods which have taken place in course of export out of territory of India, provided the sale is substantiated by a certificate in Form 'H' issued by the exporter along with other documentary evidences of export of such goods. Further, in case of export to Nepal, the claim was required to be supported by the bill of export granted by the Customs officials of India.

We noticed (between March and November 2010) from the assessment records in Katras and Ranchi Special Commercial taxes circles that in case of two dealers dealing in refractory bricks and cement, the AAs while finalising the assessments between March 2009 and March 2010 for the period 2006-07 and 2007-08, allowed

exemption from payment of tax on account of export sale to Nepal valued at ₹ 78.81 lakh, though the transactions were not supported by bill of export duly countersigned by the Customs officials of India. This resulted in incorrect allowance of exemption and consequent non-levy of tax of ₹ 5.56 lakh.

After we pointed out the cases between March 2010 and November 2010, the AA of Ranchi Special Commercial taxes circle, raised an additional demand of ₹ 3.54 lakh in April 2011 on the basis of the case remanded by the CCT, while the AA of Katras Commercial taxes circle stated in November 2010 that the case would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.19 Non/short imposition of penalty

Under the JVAT Act and rules framed thereunder, a dealer with GTO exceeding ₹ 40 lakh in a particular year is required to furnish VAT audit report in Form JVAT 409 within nine months from the end of that year, failing which the assessing authority shall impose penalty equal to 0.1 per cent of the turnover as he may determine.

**2.19.1** We test checked the assessment records in Jharia Commercial taxes circle which indicated that two assesseees had not submitted the VAT audit report in Form JVAT 409

for the period 2007-08. Our scrutiny indicated that the AA, while finalising the revised assessments between February 2010 and April 2010, did not impose penalty of ₹ 48.52 lakh for non-submission of the VAT audit report on the determined GTO of ₹ 485.23 crore. This resulted in non-imposition of penalty of ₹ 48.52 lakh.

After we pointed out the matter in January 2011, the AA revised (August 2011) the assessments and raised additional demand of ₹ 48.52 lakh.

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

Under the JF Act, no registered dealer shall collect from any person any tax on sale of goods in excess of tax liability. In the event of any contravention of the said provisions, the prescribed authority shall direct the dealer to pay by way of penalty a sum equal to twice the amount of tax so collected.

**2.19.2** We noticed (November 2009) from assessment records in Chirkunda Commercial taxes circle that an assessee had collected tax of ₹ 2.01 crore on sale of goods during 2005-06. The AA while finalising the assessment in January 2009

levied tax of ₹ 1.93 crore. Thus, the assessee had collected tax in excess of his tax liability by ₹ 8.32 lakh. Mandatory penalty of ₹ 16.64 lakh, though leviable, was not levied.

After we pointed out the matter, the AA stated (January 2010) that the case would be reviewed. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 2.20 Mistakes in computation of tax

Under the provisions of the CST Act, the AA is to finalise the assessment with utmost care and efficiency. He should see that computation of tax has been done accurately to the best of his knowledge and belief.

We noticed in case of two dealers in Chirkunda and Tenughat Commercial taxes circles that the AAs while finalising (between January 2009 and March 2010) the CST assessments for the

period 2005-06 and 2007-08 incorrectly levied tax of ₹ 5.54 crore instead of correct amount of ₹ 7.27 crore due to arithmetical mistake. This resulted in short levy of tax of ₹ 1.73 crore.

The Government accepted (November 2011) the audit observations and stated that the concerned circles were being directed to follow the same and it would be monitored at the Headquarters level.

**CHAPTER-III**  
**STATE EXCISE**

## EXECUTIVE SUMMARY

<b>Marginal increase in tax collection</b>	<p>In 2010-11, the collection of state excise receipts increased by 20.32 <i>per cent</i> over the previous year which was attributed by the Department to enforcement of the new Excise Policy.</p>
<b>Internal audit not conducted</b>	<p>No information regarding setting up of internal audit wing in the Department was furnished to us, though called for. However, audit was also not conducted by the Finance Department during 2010-11. This resultantly had its impact in terms of the weak internal controls in the Department leading to substantial leakage of revenue. It also led to omissions on the part of the Assistant Commissioner/Superintendent of Excise remaining undetected till we conducted our audit.</p>
<b>Very low recovery by the Department of observations pointed out by us in earlier years</b>	<p>During 2005-06 to 2009-10, we pointed out non/short levy, non/short realisation of duty, fee etc., with revenue implication of ₹ 238.62 crore in 1,074 cases. Of these, the Department/Government accepted audit observations in 732 cases involving ₹ 108.40 crore. As per information furnished by the Department, recovery of ₹ 86.48 crore has been effected during this period.</p> <p>The recovery position as compared to acceptance of objections, during the period 2005-06 to 2009-10 except 2006-07, ranged between zero and 8.90 <i>per cent</i>, which was very low.</p>
<b>Results of audits conducted by us in 2010-11</b>	<p>In 2010-11, we test checked the records of 19 units relating to excise duty and other state excise receipts and found non/short realisation of duty, fees, penalty etc. involving ₹ 218.32 crore in 1,560 cases.</p> <p>The Department accepted non/short realisation/levy of duty and other irregularities of ₹ 35.34 crore in 119 cases pointed out by us during 2010-11.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present illustrative cases of ₹ 165.95 crore selected from observations noticed during our test check of records relating to assessment and collection of state excise duty, fees etc., in the offices of the Assistant Commissioner/Superintendent of Excise, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action.</p>
<b>Our conclusion</b>	<p><b>The Department needs to set up the internal audit wing so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future. It also needs to initiate immediate action to recover the non-realisation, under-charge of duty, etc pointed out by us, more so in those cases where it has accepted our contention.</b></p>

## CHAPTER-III: STATE EXCISE

### 3.1 Tax administration

The levy and collection of excise duty and other State excise receipts is governed by the Bihar Excise Act, 1915 and the Rules made/notifications issued thereunder, as adopted by the Government of Jharkhand. The Secretary of the State Excise and Prohibition Department is responsible for administration of the State Excise laws at the Government level. The Commissioner of Excise (EC) is the head of the Department. He is primarily responsible for the administration and execution of the excise policies and programmes of the State Government. He is assisted by a Deputy Commissioner of Excise and an Assistant Commissioner of Excise at the headquarters.

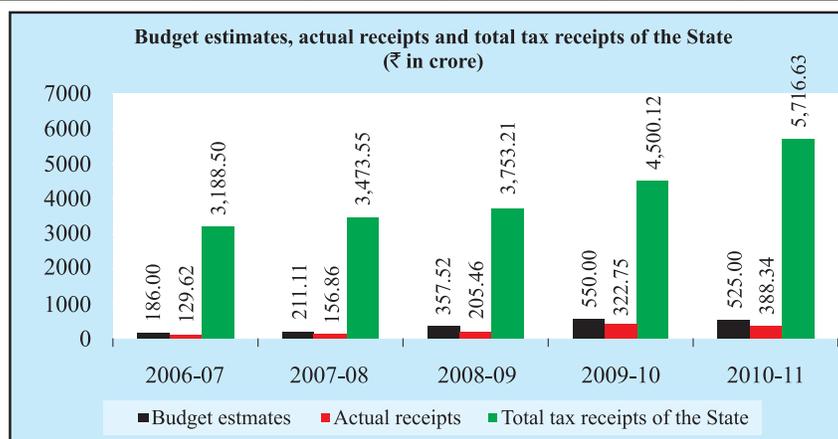
The State of Jharkhand is divided into three excise divisions<sup>1</sup>, each under the control of a Deputy Commissioner of Excise. The divisions are further divided into 19 excise districts<sup>2</sup> each under the charge of an Assistant Commissioner of Excise/Superintendent of Excise (ACE/SE).

### 3.2 Trend of receipts

Actual receipts from 'State Excise' against the budget estimates during the period 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and chart:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual State Excise receipts vis-à-vis total tax receipts
2006-07	186.00	129.62	(-) 56.38	(-) 30	3,188.50	4.07
2007-08	211.11	156.86	(-) 54.25	(-) 26	3,473.55	4.52
2008-09	357.52	205.46	(-) 152.06	(-) 43	3,753.21	5.47
2009-10	550.00	322.75	(-) 227.25	(-) 41	4,500.12	7.17
2010-11	525.00	388.34	(-) 136.66	(-) 26	5,716.63	6.79



<sup>1</sup> North Chotanagpur Division, Hazaribag, South Chotanagpur Division, Ranchi and Santhal Pargana Division, Dumka.

<sup>2</sup> Bokaro, Chaibasa, Dhanbad, Deoghar, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribag, Jamshedpur, Jamtara, Koderma, Lohardaga, Pakur, Palamu-cum-Latehar, Ranchi, Sahebganj and Saraikela-Kharsawan.

The Department could not achieve the budget estimates during 2006-07 to 2010-11 and the shortfall compared to budget estimates ranged between 26 and 43 *per cent*. Reason for variation during 2010-11 was attributed by the Department to enforcement of the new Excise Policy. This indicated that the budget estimates were not prepared on realistic basis.

**We recommend that the Government may issue suitable instructions to the Department for preparing the BEs on a realistic and scientific basis to ensure that these are close to the actuals.**

### 3.3 Cost of collection

The gross collection under State Excise, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 are mentioned in the following table:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of the preceding year
2006-07	129.62	7.38	5.69	3.40
2007-08	156.86	7.51	4.79	3.30
2008-09	205.46	10.38	5.05	3.27
2009-10	322.75	13.75	4.26	3.66
2010-11	388.34	13.27	3.42	3.64

Source: Finance Accounts of the Government of Jharkhand for the year 2010-11 and Departmental figures.

From the above it could be seen that during 2006-07 to 2009-10 the percentage of expenditure on collection was higher than the all India average, however, it came down to 3.42 *per cent* against the all India average of 3.64 *per cent* in 2010-11.

### 3.4 Working of internal audit wing

No information regarding setting up of internal audit wing in the Department was furnished to us though called for. Further, audit was also not conducted by the Finance Department during 2010-11.

**We recommend that the Government may take suitable steps for setting up of an internal audit wing in the Department so as to ensure effective implementation of the Acts/Rules for prompt and correct realisation of revenues.**

### 3.5 Impact of audit

#### Revenue impact

During the last five years (2005-06 to 2009-10) we pointed out non/delayed settlement of excise shops, non/short realisation of fee, duty, fine etc., with revenue implication of ₹ 238.62 crore in 1,074 cases. Of these, the Department/Government accepted audit observations in 732 cases involving ₹ 108.40 crore. As per information furnished by the Department, recovery of ₹ 86.48 crore was effected during 2005-06 to 2009-10. However, the number of cases in which recovery was made has not been furnished. The details are shown in the following table:

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount		
2005-06	16	479	55.09	228	22.46	2.00	8.90
2006-07	13	144	21.85	106	17.58	83.88	477.13
2007-08	11	122	38.97	94	2.06	0.00	0.00
2008-09	14	87	92.93	63	38.32	0.57	1.49
2009-10	9	242	29.78	241	27.98	0.03	0.11
<b>Total</b>	<b>63</b>	<b>1,074</b>	<b>238.62</b>	<b>732</b>	<b>108.40</b>	<b>86.48</b>	

Though the amount objected during 2006-07 was ₹ 21.85 crore only, the Department reported recovery of ₹ 83.88 crore which is 383.89 and 477.13 *per cent* of amount objected by us and accepted by the Department respectively. Reasons for huge recovery/variation were not furnished by the Department though called for. However, during the period 2005-06 to 2009-10, except 2006-07, the recovery position as compared to acceptance of objections ranged between zero and 8.90 *per cent*.

**We recommend that the Government should take appropriate steps to improve the recovery position.**

### 3.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 30.94 crore. The year wise position of arrears of revenue during the period 2006-07 to 2010-11 is shown in the following table:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2006-07	12.33	38.00
2007-08	38.00	29.16
2008-09	29.16	29.39
2009-10	29.39	30.94
2010-11	30.94	30.94

The Department did not furnish the information regarding the addition and clearance of the arrears during the year. However, the above table indicates that the amount of arrears increased from ₹ 12.33 crore as on 1 April 2006 to ₹ 30.94 crore as on 31 March 2011, registering an increase of 151 *per cent*. As per information furnished by the Department, out of ₹ 30.94 crore, demands for ₹ 12.93 crore were certified for recovery as arrears of land revenue. Recovery of ₹ 15.91 crore and ₹ 24 lakh were stayed by Courts and the Government respectively. Recovery of ₹ 11 lakh was held up due to parties becoming insolvent and ₹ 19 lakh was likely to be written off. Specific action taken in respect of balance amount of ₹ 1.56 crore has not been intimated (February 2012). The position of the arrears of revenue, outstanding for more than five years, at the end of 2010-11 was also not furnished by the Department (February 2012) despite being requested by us (August 2011).

Thus, from the above it would be seen that only 42 *per cent* of the total amount of arrears was recoverable as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery (PDR) Act, 1914 and 58 *per cent* of arrears required appropriate action for settlement.

We recommend that the Government may consider issuing directions to the Department for speedy settlement of the arrear cases by continuously monitoring the arrears recoverable as arrears of land revenue as well as the court cases in the interest of revenue.

### 3.7 Results of audit

We test checked the records of 19 units during the year 2010-11 and found cases of non/short realisation of licence fee, duty, loss of revenue etc. involving ₹ 218.32 crore in 1,560 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1	Non/delayed settlement of excise shops	677	112.44
2	Non renewal/re-settlement of exclusive privilege for wholesale supply of Country spirit/Spiced Country Spirit (CS/SCS)	221	21.88
3	Short lifting of liquor	17	10.49
4	Undue financial benefits due to unauthorised concession	6	4.19
5	Non-realisation of license fee	1	0.60
6	Other cases	638	68.72
<b>Total</b>		<b>1,560</b>	<b>218.32</b>

During the course of the year, the Department accepted non/short realisation of licence fee, duty, loss of revenue and other deficiencies of ₹ 35.34 crore in 119 cases and recovered ₹ 1.59 lakh in one case pointed out by us during 2010-11.

In this chapter we present a few illustrative cases having financial implication of ₹ 165.95 crore, out of which ₹ 16.36 crore is recoverable. The Government/Department has accepted audit observations of ₹ 13.30 crore as of October 2011. The balance amount of ₹ 149.59 crore was loss to the Government due to non-observance of the provisions of the Act/Rules.

### 3.8 Non-observance of the provisions of Act/Rules

*The Bihar Excise Act, 1915 (as adopted by the Government of Jharkhand) and Rules made thereunder provide for:*

- i) *settlement of exclusive privilege for wholesale supply of country spirit in due time;*
- ii) *renewal of licences for vendors/contractors;*
- iii) *payment of annual licence fee for wholesale supply of country spirit (CS), retail excise shops, wholesale supply of India Made Foreign Liquor(IMFL); and*
- iv) *lifting of minimum guaranteed quota (MGQ) by excise retail shops.*

*We noticed that the Government had not prescribed any time period for each stage<sup>3</sup> to ensure their timely settlement/approval so as to prevent loss of revenue. Loss of revenue due to delayed settlement of the shops and non-observance of some of the provisions of the Act/Rules are mentioned in the following paragraphs 3.9 to 3.14.*

### 3.9 Short lifting of liquor by retail vendors

Under the provisions of the Jharkhand Excise Act, Rules and polices made thereunder each licence vendor of a retail excise shop is required to submit weekly requirement of country spirit of the next month to the contractor of the exclusive privilege for wholesale supply of country spirit by the last week of the previous month and is bound to lift Minimum Guaranteed Quota (MGQ) of liquor of each kind fixed by the Department for the shop, failing which excise duty and fiscal penalty equivalent to loss of excise duty suffered by the Government shall be recoverable from the vendor.

We noticed between June 2010 and March 2011 from the consumption register and related records in six excise districts<sup>4</sup> that 163 retail licenced vendors were required to lift MGQ of 59.63 lakh London Proof Litre (LPL) in 2008-09 (six vendors) and 31.74 lakh LPL of liquor in 2009-10 (157 vendors) from wholesale licensees of the districts. However, the retailers lifted 18.26 lakh LPL in 2008-09 and 19.22 lakh LPL of liquor in 2009-10. Thus, there was short lifting of 53.89 lakh LPL of liquor. We calculated the recoverable excise duty and fiscal penalty on account of aforesaid short lifting of

liquor at ₹ 8.63 crore. We further noticed that the Department did not take any steps

<sup>3</sup> 1. Gazette notification in respect of settlement of shops for the following year; 2. Preparation of model for sale notification; and 3. Receipt of applications from the bidders and conduct of lottery for settlement of excise shops.

<sup>4</sup> Dhanbad, East Singhbhum (Jamshedpur), Koderma, Saraikela-Kharsawan, Sahebganj and West Singhbhum (Chaibasa).

to recover the excise duty<sup>5</sup> and levy fiscal penalty. This resulted in non-realisation of Government revenue of ₹ 8.63 crore.

After we pointed out the cases between June 2010 and March 2011, the ACE, Dhanbad and the SE, Sahebganj accepted the audit observations and stated that action would be taken to recover the loss of revenue and fiscal penalty, while the other ACsE/SsE did not furnish specific replies. Further reply has not been received (February 2012).

The matter was reported to the Government in June 2011, followed by a reminder issued in September 2011; their reply has not been received (February 2012).

### 3.10 Non/delayed settlement of retail excise shops

Under the provisions of Jharkhand Excise Act and rules made thereunder, State Excise and Prohibition Department, Government of Jharkhand, by a notification no. 367 dated 20 February 2009, launched a new excise policy to settle all retail shops through lottery system with a view to generate more excise revenue, check sale of illicit liquor, control on monopoly of a single unit/person and to provide standard liquor to a consumer. For these purposes, MGQ of each kind of liquor and number of shops were raised and licence fee was to be fixed on the basis of MGQ. Further, all retail shops were to be divided in groups (maximum three numbers). Further, by a notification issued in March 2009, in case of non-settlement of retail shops, licensing authorities have to apply discretionary powers, conferred upon them, to recommend cases at reduced rates to the EC for issue of licence to any individual/committee/company so that the EC can take a decision to approve the settlement of retail shops in the interest of excise revenue.

**3.10.1** We noticed from the settlement register and related records, between April 2010 and March 2011, in 11 excise districts<sup>6</sup> that a list of excise retail shops specifying their MGQ, licence fee, advance licence fee and security money was prepared at the district level and sale notifications, containing all the facts, were published on different dates in each district in March 2009 for settlement of shops for the year 2009-10 through lottery system.

<sup>5</sup>

Year	Category	Quantity of short lifting (LPL/BL)	Rate of excise duty ₹ per LPL/BL	Loss of excise duty	Movement fee	Fiscal Penalty	Total
				(₹ in lakh)			
2008-09	IMFL	9,35,376	10	93.54	9.69	103.23	206.46
	Beer	4,10,613	2	8.21	0.00	8.21	16.42
	CS	24,78,735	5	123.94	0.00	123.94	247.88
	SCS	3,12,102	6	18.73	0.00	18.73	37.46
2009-10	IMFL	5,33,979	25	133.49	5.34	138.83	277.66
	CS	4,63,077	5	23.15	0.00	23.15	46.30
	SCS	2,54,573	6	15.27	0.00	15.27	30.54
<b>Total</b>		<b>53,88,455</b>		<b>416.33</b>	<b>15.03</b>	<b>431.36</b>	<b>862.72</b>

<sup>6</sup> Dhanbad, Dumka, Giridih, Gumla-cum-Lohardaga, Hazaribag-cum-Ramgarh-cum-Chattra, Jamshedpur, Jamtara, Koderma, Pakur, Ranchi and Sahebganj.

But we noticed that 500 retail shops remained to be settled due to non-observance of the provisions to settle retail shops at reduced rate which resulted in loss of Government revenue amounting to ₹ 85.39 crore<sup>7</sup> in the shape of licence fee and excise duty.

After we pointed out the matter between April 2010 and March 2011, the concerned ACsE/SsE attributed the reasons to excess fixation of licence fee, interrupted supply of CS/SCS and poor turnout of bidders. The replies of all the concerned ACsE/SsE were not acceptable as the excise authorities did not exercise their discretionary powers to recommend these cases at the reduced rates to the EC as per the provisions of the notification of 27 March 2009. Further reply has not been received (February 2012).

**3.10.2** We noticed from the settlement register and related records during June 2010 to August 2010 that 40 and 48 excise retail shops in Ranchi and Dhanbad respectively were settled (between 6 April 2009 and 21 January 2010) after delays ranging between five days and nine months which resulted in loss of revenue of ₹ 6.45 crore<sup>8</sup> in the shape of licence fee and excise duty.

After we pointed out the matter between June 2010 to August 2010, the ACE, Dhanbad attributed the reasons of non-settlement to want of bidders, while ACE, Ranchi did not furnish any reply on the issue of delayed settlement. The replies of ACsE were not in order as they did not exercise their discretionary powers to recommend these cases at the reduced rates to the EC as per the provisions of the notification of 27 March 2009. Further reply has not been received (February 2012).

7

Category	Qty/LPL/BL	Licence fee	Excise duty	Amount of licence fee	Amount of excise duty
		Rate per LPL/BL	Rate per LPL/BL		
IMFL	28,47,844	175	25	4,983.73	711.96
Beer	22,46,336	15	6	336.95	134.78
CS	38,76,972	50	5	1,938.49	193.85
S CS	4,27,172	50	6	213.59	25.63
<b>Total</b>				<b>7,472.76</b>	<b>1,066.22</b>
<b>Grand Total</b>					<b>8,538.98</b>

8

Category	Qty/LPL/BL	Licence fee	Excise duty	Amount of licence fee	Amount of excise duty
		Rate per LPL/BL	Rate per LPL/BL		
IMFL	2,47,125	175	25	432.47	61.78
Beer	1,25,559	15	6	18.83	7.53
CS	1,12,398	50	5	56.20	5.62
SCS	1,11,570	50	6	55.79	6.69
<b>Total</b>				<b>563.29</b>	<b>81.62</b>
<b>Grand Total</b>					<b>644.91</b>

Under the provisions of the Jharkhand Excise Act, the Government adopted (February 2004) an excise policy effective from 2004-05 under which retail shops are required to be settled in two groups viz. one for country spirit/spiced country spirit and the other for India made foreign liquor/beer for a block of three years, i.e., from July 2004 to March 2007. The Excise Commissioner issued instructions from time to time to the Deputy Commissioners for extension of the period upto June 2008 and in case of non-settlement/extension, the shops were required to be run departmentally. Thereafter, the Government adopted a new excise policy which envisaged a composite licence irrespective of groups with effect from 1 July 2008.

**3.10.3** We noticed from the settlement register and related records during September 2010 to January 2011 that in three excise districts<sup>9</sup>, 218 excise retail shops of Group-I<sup>10</sup> were neither extended nor resettled or operated departmentally. As such, entire districts remained completely dry for want of settlement/extension/departmental operation from 1 April 2008 to 30 June 2008. This resulted in loss of revenue in the shape of licence fee and excise duty of ₹ 5.92 crore<sup>11</sup>.

After we pointed out the matter, all the concerned ACsE/SsE accepted the audit observation but did not furnish any reply for not operating the shops departmentally. However, the ACE, Hazaribag stated that security money of the bidders was forfeited. Further reply has not been received (February 2012).

The matter was reported to the Government in June 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

### 3.11 Delayed settlement of exclusive privilege for wholesale supply of country spirit

Under the provisions of the Jharkhand Excise Act, the State Government may grant to any person/persons on such conditions and for such terms and conditions for such period, as it may be think fit, the exclusive/special privilege for supplying country liquor, on wholesale basis, after sacheting/bottling it. Further, the Excise Commissioner was required to publish a notice for settlement of wholesale suppliers of country spirit six months prior to expiry of the term of the existing contract specifying the area, quantity, nature and quality of spirit required to be supplied and the warehouse at which the delivery was to be made.

We noticed during June 2010 to March 2011 from records pertaining to exclusive privilege for wholesale supply of country spirit and related records that in four excise

<sup>9</sup> Dhanbad, Hazaribag and Sahebganj.

<sup>10</sup> Country Spirit and Spiced Country Spirit.

<sup>11</sup> **Licence fee:** ₹ 5.42 crore, **Excise duty of CS:** 8,74,061 LPL @ ₹ 5 = ₹ 43.70 lakh and **SCS:** 1,06,535 LPL @ ₹ 6 = ₹ 6.39 lakh.

districts<sup>12</sup> tender notification for wholesale supply of country spirit for 2008-09 to 2010-11 was published on 3 April 2008 instead of September 2007 i.e., after a delay of seven months. The license for supply of country spirit (CS) was settled on 1 August 2008 in three excise districts and in Jamshedpur it was settled on 1 January 2010 i.e., after a delay of 21 months. Thus, an average delay of seven months in publication of notification for settlement of exclusive privilege for wholesale supply of country spirit by the Excise Commissioner, Jharkhand resulted in loss of excise revenue of ₹ 1.71 crore. We calculated the loss of revenue at the rate of ₹ 4 per LPL on 5,48,802 LPL<sup>13</sup> for the period ranging between four and 21 months.

After we pointed out the matter between June 2010 and March 2011, the ACsE, Jamshedpur, Ranchi and Hazaribag attributed the reasons for delay in settlement on the part of Headquarters (Excise Commissioner), while SE, Koderma did not furnish any reply. After we pointed out the matter to the Excise Commissioner, it was stated that reply would be furnished after obtaining the details from the field offices.

The matter was reported to the Government in June 2011, followed by a reminder issued in September 2011; their reply has not been received (February 2012).

### 3.12 Loss of revenue due to short realisation of licence fee

Under the provisions of the Jharkhand Excise Act and rules made thereunder, the Excise and Prohibition Department, Government of Jharkhand launched a new policy in February 2009 for *cent per cent* settlement of excise retail shops through lottery system on receipt of reserve fee which is subsequently fixed as monthly licence fee after settlement of shops. The reserve fee is calculated on the basis of rates per LPL/BL fixed by the Department for MGQ of each kind of liquor.

We noticed (June 2010) from the settlement register and related records during audit of ACE, Jamshedpur that reserve fee of ₹ 1.40 crore was realised on settlement of 38 retail excise shops (37 IMFL and one country spirit) on the basis of MGQ, for each kind of liquor, fixed by the Department for 2009-10. We further noticed that the reserve fee was incorrectly worked out to

₹ 1.39 crore instead of the correct amount of ₹ 1.56 crore<sup>14</sup>. Consequently, monthly licence fee of retail shops was realised on the incorrect reserve fee fixed during the settlement period (varying between five and 12 months). This resulted in short realisation of licence fee of ₹ 1.40 crore.

<sup>12</sup> Hazaribag-cum-Ramgarh-cum-Chatra, Jamshedpur, Koderma and Ranchi.

<sup>13</sup> **1. Jamshedpur:** 2008-09- 1,46,787 LPL for 12 months and 2009-10- 1,82,272 LPL for nine months. **2. Ranchi:** 2008-09- 1,26,775 LPL for four months. **3. Koderma:** 2008-09- 14,243 LPL for four months. **4. Hazaribag-cum-Ramgarh-cum-Chatra:** 2008-09- 78,725 LPL for four months.

<sup>14</sup> **IMFL:** 79,742.08 LPL @ ₹ 175 per LPL + **Beer:** 94,106.75 BL @ ₹ 15 per BL+ **CS:** 4,502.50 LPL @ ₹ 50 per LPL = ₹ 1.56 crore.

After we pointed out the matter, the ACE, Jamshedpur stated that due to enhancement in MGQ for 2008-09, licence fee of some shops were fixed for a lesser amount. The decision to settle the shops at lesser amount was arbitrary and in violation of the orders of the Government resulting in loss of Government revenue.

**We recommend that the Government may consider taking steps for fixing responsibility/taking disciplinary action against such erring officials.**

The matter was reported to the Government in June 2011, followed by a reminder issued in September 2011; their reply has not been received (February 2012).

### 3.13 Loss of revenue due to non-settlement of excise shops under new Excise policy 2008

The Department of Excise and Prohibition notified (May 2008) a new excise policy, effective from 1 July 2008, for *cent per cent* settlement of excise shops of the district and full collection of Government revenue during the year. According to the amended resolution dated 7 May 2008, all excise shops of a district (country spirit, spiced country spirit, IMFL and beer) were merged into one group for settlement under exclusive privilege through auction for the period 2008-09. Further, settlement of excise shops is required to be approved by the Commissioner of Excise.

We noticed from the settlement register and related records during April 2010 to March 2011 that in 10 excise districts<sup>15</sup>, 966 excise retail shops (CS: 318, SCS: 231, IMFL: 417) remained unsettled between 1 July 2008 and 11 November 2008 and a completely dry position remained in the districts resulting in loss of licence

fee and excise duty amounting to ₹ 50.12 crore.

After we pointed out the matter between April 2010 and March 2011, six ACsE/SsE<sup>16</sup> stated that approval for settlement, being mandatory, was not accorded by the Excise Commissioner. The other ACsE, did not furnish any specific reply. After we pointed out the matter to the Excise Commissioner, it was stated that reply would be furnished after obtaining the details from the field offices. Further reply has not been received (February 2012).

The matter was reported to the Government in June 2011, followed by a reminder in September 2011; their reply has not been received (February 2012).

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<sup>15</sup> Chaibasa, Dhanbad, Gumla, Hazaribag-cum-Ramgarh-cum-Chatra, Jamshedpur, Koderma, Pakur, Ranchi-cum-Khunti, Sahebganj and Saraikela-Kharsawan.

<sup>16</sup> Chaibasa, Jamshedpur, Koderma, Pakur, Ranchi-cum-Khunti and Sahebganj.

### 3.14 Loss of revenue due to non-realisation of fine on belated deposit of licence fee

Under the provisions of the Jharkhand Excise Act and rules made thereunder read with condition no. XVII of letter No.1/ Neeti-40-5/ 2009-422 and condition No.15 of sale notification, licensees of retail shops were bound to deposit the monthly licence fee by the 20<sup>th</sup> of each month, failing which interest at the rate of five *per cent* per day was chargeable on the amount due on account of licence fee.

We noticed from the license fee register and other related records during June 2010 to January 2011 in three excise districts<sup>17</sup> that two and 28 licensees of excise retail shops failed to deposit their monthly licence fee within the stipulated period i.e. by 20<sup>th</sup> of each month during 2008-09 and 2009-10 respectively. As such, the licensees were liable to pay interest of ₹ 6.33 crore on account

of delay in deposit of monthly licence fee which was, however, not realised.

After we pointed out the matter, the ACE, Jamshedpur stated that interest had been adjusted against security deposit and certificate cases have been instituted against 19 licensees for recovery of monthly licence fee. ACE, Dhanbad stated that the loss would be verified and adjusted while ACE, Ranchi stated that there was no schedule of payment prescribed in the rules. The reply of the ACE, Ranchi was not acceptable as it was contradictory to the provisions of the Act/Rules. Further reply has not been received (February 2012).

The matter was reported to the Government in June 2011, followed by a reminder in September 2011; their reply has not been received (February 2012).

<sup>17</sup> Dhanbad, Jamshedpur and Ranchi.

**CHAPTER-IV**  
**TAXES ON VEHICLES**

## EXECUTIVE SUMMARY

<b>Marginal increase in tax collection</b>	In 2010-11, the collection of taxes from motor vehicles increased by 33.37 <i>per cent</i> over the previous year which was attributed by the Department to increase in the number of vehicles for registration.
<b>Internal audit not conducted</b>	No Internal Audit Wing has been set up in the Department. We were informed that audit for 2009-10 and 2010-11 has been taken up by the Finance Department since June 2011. Status of audit for previous years was not informed. Non-conducting of internal audit had its impact in terms of weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omissions on the part of the District Transport Officers remaining undetected till we conducted our audit.
<b>Very low recovery by the Department of observations pointed out by us in earlier years</b>	During the period 2005-06 to 2009-10 we had pointed out non/short levy, non/short realisation of tax, fee etc., with revenue implication of ₹ 444.25 crore in 1,23,311 cases. Of these, the Department/Government accepted audit observations in 1,16,813 cases involving ₹ 165.91 crore but recovered only ₹ 1.14 crore. The recovery position as compared to acceptance of objections was very low ranging from 0.19 to 1.42 <i>per cent</i> .
<b>Results of audits conducted by us in 2010-11</b>	In 2010-11, we test checked the records of 19 units relating to taxes on vehicles and found non/short realisation/levy of tax, fees, penalty etc. involving ₹ 29.03 crore in 6,886 cases, of which the Department accepted non/short realisation/levy of tax and other deficiencies of ₹ 28.95 crore in 6,830 cases. The Department recovered ₹ 1.55 crore pointed out by us during 2010-11.
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present a review on “Computerisation in Transport Department” conducted by test check of records as well as by analysing the database of <i>Vahan and Sarathi</i> of five selected District Transport Offices, where we found delay in site preparation and mapping of business rules, deficient system design, manual issuance of NOCs and other deficiencies. Besides the above, we also highlighted illustrative cases of ₹ 12.93 crore selected from observations noticed during our test check of records relating to assessment and collection of motor vehicles tax in the office of the District Transport Officers, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action despite switching over to an IT-enabled system.</p>
<b>Our conclusion</b>	<p><b>The Department needs to improve the internal control system including arranging for internal audit so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future.</b></p> <p><b>It also needs to initiate immediate action to recover the non-realisation, undercharge of tax, etc., pointed out by us, more so in those cases where it has accepted our contention.</b></p>

## CHAPTER – IV: TAXES ON VEHICLES

### 4.1 Tax administration

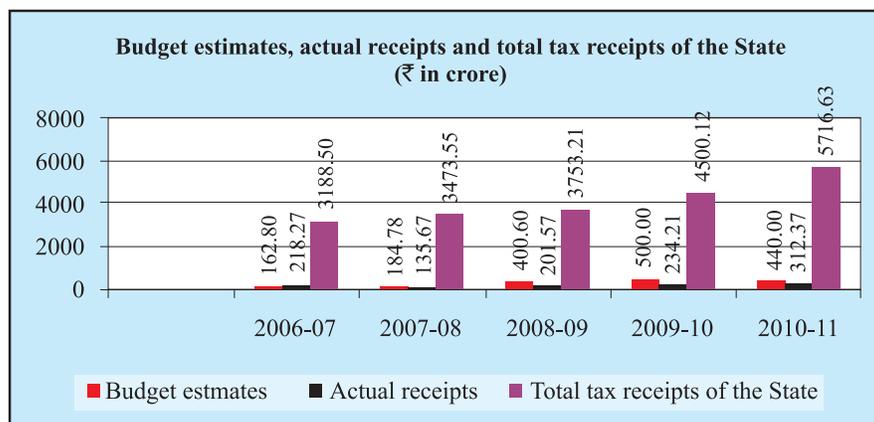
The levy and collection of Motor Vehicles Tax and fee in the State is governed by the Bihar Motor Vehicles Taxation (BMVT) Act, 1994, rules made thereunder and the Bihar Motor Vehicles (BMV) Rules, 1992. On creation of the State of Jharkhand with effect from 15 November 2000, the existing Acts, Rules and executive instructions of the State of Bihar were adopted by the State of Jharkhand. At the apex level, the Transport Commissioner (TC), Jharkhand is responsible for administration of the Acts and Rules in the State. He is assisted by a Joint Transport Commissioner at the Headquarters. The State has been divided into four regions<sup>1</sup> and 22 transport districts<sup>2</sup>, which are controlled by the State Transport Authority (STA), Regional Transport Authorities (RTAs) and District Transport Officers (DTOs). They are assisted by Motor Vehicles Inspectors (MVIs), the Enforcement Wing (EW) and nine check posts<sup>3</sup>.

### 4.2 Trend of receipts

Actual receipts from ‘Taxes on Vehicles’ against budget estimates during the period from 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts to total tax receipts of the State
2006-07	162.80	218.27	(+) 55.47	(+) 34	3,188.50	6.85
2007-08	184.78	135.67	(-) 49.11	(-) 27	3,473.55	3.91
2008-09	400.60	201.57	(-) 199.03	(-) 50	3,753.21	5.37
2009-10	500.00	234.21	(-) 265.79	(-) 53	4,500.12	5.20
2010-11	440.00	312.37	(-) 127.63	(-) 29	5,716.63	5.46



<sup>1</sup> Dumka, Hazaribag, Palamu and Ranchi.

<sup>2</sup> Bokaro, Chaibasa, Chatra, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribag, Jamshepur, Jamtara, Koderma, Latehar, Lohardaga, Palamu, Pakur, Ranchi, Sahebganj, Saraikela-Kharsawan and Simdega.

<sup>3</sup> Bahragora (East Singhbhum), Bansjore (Simdega), Chas More (Bokaro), Chauparan (Hazaribag), Chirkunda (Dhanbad), Dhulian (Pakur), Manjhatoli (Gumla), Meghatari (Koderma) and Murisemar (Garhwa).

The Department could not achieve the budget estimates except during 2006-07. The shortfall compared to budget estimate ranged between 27 and 53 per cent during the period 2007-08 to 2010-11. The Department instead of specifying reasons for wide variation between the BEs and actuals attributed the same to limitations of resources in the districts.

### 4.3 Cost of collection

The gross collection under taxes on motor vehicles, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 are mentioned in the following table:

(₹ in crore)

Year	Gross Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of the preceding year
2006-07	218.27	2.49	1.14	2.67
2007-08	135.67	2.90	2.14	2.47
2008-09	201.57	4.03	2.00	2.58
2009-10	234.21	5.02	2.14	2.93
2010-11	312.37	4.83	1.55	3.07

Source: Finance Account of the Government of Jharkhand for the year 2010-11 and Departmental figures.

From the above it could be seen that the percentage of expenditure on collection was lower than the all India average in all the years. Especially, during 2010-11, it came down to 1.55 per cent which is about 50 per cent lower than the all India average of the preceding year. We appreciate the performance of the Department on this issue.

### 4.4 Working of internal audit wing

The Department informed us that although no internal audit wing exists, the auditors of the Finance Department have taken up internal audit for 2009-10 and 2010-11 since June 2011. Information regarding audit conducted for the previous years was not furnished.

**The Government may consider setting up of an internal audit wing so as to ensure effective implementation of the Acts/Rules for prompt and correct realisation of revenues.**

### 4.5 Impact of audit

#### Revenue impact

During the last five years (2005-06 to 2009-10) we pointed out non/short levy, non/short realisation of tax, fee etc., with revenue implication of ₹ 444.25 crore in 1.23 lakh cases. Of these, the Department/Government accepted audit observations in 1.17 lakh cases involving ₹ 165.91 crore and recovered ₹ 1.14 crore. However, the number of cases in which recovery was made has not been furnished. The details are shown in the following table:

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount		
2005-06	22	9,313	101.42	9,012	21.36	0.28	1.31
2006-07	18	25,310	207.33	24,305	63.69	0.24	0.38
2007-08	15	58,554	36.97	58,554	36.97	0.07	0.19
2008-09	18	26,574	77.79	21,385	26.81	0.38	1.42
2009-10	13	3,560	20.74	3,557	17.08	0.17	1.00
<b>Total</b>	<b>86</b>	<b>1,23,311</b>	<b>444.25</b>	<b>1,16,813</b>	<b>165.91</b>	<b>1.14</b>	

During the period 2005-06 to 2009-10, the recovery position as compared to acceptance of objections was very low ranging from 0.19 to 1.42 *per cent*.

**The Government should take appropriate steps to improve the recovery position, particularly in those cases where it has accepted the audit contention.**

#### 4.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 117.87 crore. The year-wise position of arrears of revenue during the period 2006-07 to 2010-11 is depicted below:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2006-07	48.30	128.65
2007-08	128.65	174.30
2008-09	174.30	NA
2009-10	NA	140.05
2010-11	140.05	117.87

Though the arrears of revenue decreased from ₹ 140.05 crore as on 31 March 2010 to ₹ 117.87 crore in 31 March 2011, the Department did not furnish the information regarding addition and clearance of the arrears during the year(s). Figures of arrears outstanding for more than five years were also not made available by the Department.

As per the information furnished by the Department, out of ₹ 117.87 crore, demands of ₹ 50.35 crore were certified for recovery as arrears of land revenue. Recovery of ₹ 1.41 lakh was stayed by the Courts and the Government. Recovery of ₹ 26.32 crore was held up due to other reasons. Specific action taken in respect of the remaining arrears of ₹ 41.19 crore has not been intimated (February 2012).

Thus, it would be seen that only 43 *per cent* of the total amount of arrears was recoverable as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery (PDR) Act, 1914 and 57 *per cent* of arrears required appropriate action for settlement.

**The Government may consider issuing directions to the Department for speedy settlement of the arrear cases by constant monitoring and recovering the arrears as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery Act, 1914.**

## 4.7 Results of audit

Our test check of the records of 19 units during 2010-11 relating to 'Taxes on Vehicles' revealed non/short collection/levy of tax and other deficiencies involving ₹ 29.03 crore in 6,886 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1	<b>Computerisation in Transport Department (A Review)</b>	1	8.48
2	Non/short levy of taxes	1,431	1.72
3	Lack of control over collection of taxes	1,488	9.85
4	Other cases	3,966	8.98
<b>Total</b>		<b>6,886</b>	<b>29.03</b>

During the course of the year, the Department accepted non/short levy of motor vehicles tax, fees, penalties, fines etc., of ₹ 28.95 crore in 6,830 cases pointed out by us during 2010-11, of which ₹ 1.55 crore was realised by the Department, including ₹ 77.46 lakh pertaining to a draft paragraph on incorrect levy of tax on temporary registration after being brought to the notice of the Government during 2010-11.

In this Chapter we present a few illustrative cases including a review on “**Computerisation in Transport Department**” having recoverable financial implication of ₹ 21.41 crore which are discussed in the succeeding paragraphs:

## 4.8 Computerisation in Transport Department

### Highlights

- Computerisation in Transport Department was restricted to district transport offices, RTA and STA offices which resulted in non-computerisation in other transport offices *viz.*, Motor Vehicle Inspectors and Check-posts.  
(Paragraph 4.8.6)
- Non-formation of project monitoring unit resulted in lack of uniformity in the application system throughout the State.  
(Paragraph 4.8.6.1)
- Deficient system design resulted in incoherency of validity date of driving licence in 3,981 cases.  
(Paragraph 4.8.9.3)
- Calculation of penalty, on delayed payment of tax, was being done and fed manually indicating insufficient mapping of business rules in the application.  
(Paragraph 4.8.9.4)
- There was break in period of payment of tax ranging from three to 298 months in 5,249 cases indicating that the application was not suitably designed to flag such cases of non-payment of tax in the table.  
(Paragraph 4.8.9.7)
- Irregular clearance of tax position due to manual feeding in the field Tax\_Upto\_date was indicative of poor input controls in the application.  
(Paragraph 4.8.9.8)
- Manual issuance of NOC to 1,548 vehicles resulted in inflated demand against vehicles issued NOC amounting to ₹ 10.53 crore.  
(Paragraph 4.8.9.12)
- Service tax amounting to ₹ 98.41 lakh realised on issue of fitness certificate was not transferred into the appropriate head of account.  
(Paragraph 4.8.9.14)
- Non-formulation of training plan resulted in irregularities, discrepancies in data and dependence on manual operation of business processes.  
(Paragraph 4.8.12.2)

### 4.8.1 Introduction

The Ministry of Road Transport and Highways (MoRT&H), an apex organisation under the Central Government, with an objective to provide valuable data for the Centre and State, implemented a scheme for creation of a National Database network in 2001 through the National Informatics Centre (NIC). The data from all district transport offices in the State was to flow into the State Register<sup>4</sup> which in turn was to be captured in the National Register<sup>5</sup> at the Centre. Two softwares were designed by NIC for this purpose *VAHAN*, that dealt with registration of vehicles

<sup>4</sup> State Register – A register to be maintained in Form 41 for motor vehicles registered in the State.

<sup>5</sup> National Register – A consolidated register at the Centre incorporating data/information of all the State Registers.

in the district transport offices and *SARATHI*, a computer based solution, to issue learning licence, driving licence, conductor licence to the citizens and licence for driving school establishment.

Prior to implementation of *VAHAN* and *SARATHI*, the erstwhile Transport Department of Government of Bihar decided to computerise the system of taxation and implemented (1992) the Road Transport Management Information System (NICTRAN) with active collaboration of Bihar State Unit of NIC. After creation of Jharkhand (15 November 2000), NICTRAN was monitored by the Transport Department, Government of Jharkhand.

The Government of Jharkhand implemented *VAHAN* and *SARATHI* applications in August 2004 as an integrated effort to computerise all activities of Transport Department to ensure increase in Government revenue; provide better citizen services; enforce greater control; monitor quick implementation of Government policies from time to time and provide instant access to information, if needed, by any other Government Department.

The application programs of the schemes were based on three-tier architecture (client machine, application server and database driver). The various components of the application were:

- a) Backend database server (SQL Server 7.0 or above) and Front end application program developed in Visual Basic 6.0.
- b) Application server (Distributed Component Object Model server).

#### **4.8.2 IT Vision and IT Plan**

A detailed proposal for “Computerisation of Transport Department in Jharkhand” was prepared by the Department of Information Technology (DoIT) in September 2003. A time table was framed for various activities in order to complete the project by December 2003. An inter-departmental Committee for implementation and monitoring (IDCIM) consisting of members from DoIT, Transport Department and NIC headed by Secretary, DoIT as Chairman and Secretary, Transport Department as Co-chairman was constituted (September 2003) by the Government. The project was approved in October 2003. The target date for completion of the project was revised to August 2004. The major components of the project were site preparation, provision of hardware, establishment of wide area network (WAN) for connecting all the offices of the Transport Department, upgradation of the existing software and training of employees.

The work relating to issuance of Smart Card based Driving Licence (DL), Registration Certificate (RC), Tax Payment and Permits on BOOT (Build, Own, Operate and Transfer) system were outsourced to M/s Venketesh Udyog and M/s AKS Smart Card System Ltd. (vendors) in September 2004.

#### **4.8.3 Audit objectives**

The review was conducted to ascertain whether:

- the phase-wise implementation schedules for *VAHAN* and *SARATHI* were achieved as per time frames fixed;

- computerised systems implemented were complete (module wise) and data captured by the district transport offices were correct and complete;
- connectivity was established between district transport offices in the State for creation of State Register for vehicles, licences, National Register and Central Servers were put in place;
- the computerised National Permit System (NPS) was implemented as planned for and projected objectives were achieved; and
- reliable general and security controls were in place.

#### 4.8.4 Audit scope and methodology

There are 22 district transport offices in the State out of which, 18 were computerised as of August 2011. Out of the computerised district transport offices, five district transport offices<sup>6</sup> were selected for the review. Three district transport offices viz., Hazaribag, Jamshedpur and Ranchi were selected on the basis of high revenue collection during 2009-10, while two district transport offices, Bokaro and Koderma, were selected through random sampling. The database of VAHAN and SARATHI in the form of ORACLE dump files of the selected district transport offices, for the period from April 2006 to June 2011 were obtained from NIC, Jharkhand State Unit, Ranchi and were analysed between July and September 2011 by using Computer Assisted Audit Techniques (CAATS). The computerised data was cross-checked with the manual records in one district transport office (District Transport Office, Jamshedpur) in November 2011. The relevant records maintained in the Transport Department and DoIT were also test checked.

#### 4.8.5 Acknowledgement

We acknowledge the co-operation of the Transport Department, DoIT, Government of Jharkhand and the NIC for providing necessary information and records for audit scrutiny. We reported the audit findings to the Government in September and October 2011. The audit findings were discussed in a meeting held on 11 November 2011. The replies received during the meeting and at other points of time have been appropriately incorporated in the relevant paragraphs.

#### Audit findings

#### 4.8.6 Project implementation

##### Phase-I

The Transport Department, under the initiative of DoIT, had undertaken computerisation of district transport offices, regional transport authority and state transport authority offices. DoIT procured computers and communication hardware for 18 district transport offices<sup>7</sup>, four RTAs<sup>8</sup> and STA office. During Phase-I of the

<sup>6</sup> Bokaro, Hazaribag, Jamshedpur, Koderma and Ranchi.

<sup>7</sup> Bokaro, Chaibasa, Chatra, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribag, Jamshedpur, Koderma, Lohardaga, Palamu, Pakur, Ranchi and Sahebganj.

<sup>8</sup> Dumka, Hazaribag, Palamu and Ranchi.

project, which started in 2003-04, NIC provided the application software (*VAHAN* and *SARATHI*) for the computerisation of Transport Department. District Transport Office, Dhanbad was chosen as the pilot site and the software was implemented there in August 2004 after necessary customisation of the softwares by NIC (Headquarter Team). The software was installed in the rest of the district transport offices during 2004-05 and 2005-06. The IDCIM in its meeting (August 2004) decided to nominate a Nodal Officer from the Transport Department for monitoring the progress of the project. The Deputy Secretary, Transport Department was nominated as Nodal Officer. The hardware and software peripherals along with installation reports were finally handed over (December 2005) to the Transport Department by the DoIT.

- **Delay in site preparation and implementation of software**

DoIT provided (November 2003) ₹ 54 lakh to the Divisional Commissioners (for RTAs), Transport Commissioner (for STA) and Deputy Commissioners (for district transport offices) for site preparation. As per the minutes of meeting of IDCIM held in October 2003, the completion date of the work of site preparation was revised from 1 November 2003 to 31 December 2003 and in the meeting of IDCIM in June 2004, the completion date for installation of software was revised from 30 November 2003 to 31 August 2004. The work was to be monitored by the Transport Commissioner for its timely completion. The work (except implementation of permit module) was finally completed in December 2005 with delays up to 15 months. This resulted in sub-optimal utilisation of the hardware and peripherals procured between January and March 2004.

### **Phase-II**

The Transport Department nominated (January 2010) NIC and National Informatics Centre Services Inc. (NICS) for upgradation of the computer systems already installed in 18 district transport offices and installation of computer systems in the newly created four district transport offices<sup>9</sup> under phase-II of the project. As per the approved project proposal, NIC and NICS were responsible for installation and up-gradation of the application software; imparting training to staff/officers and providing technical support on matters related to the application software. For this purpose, the Department released (March 2010) an amount of ₹ 3.14 crore to the agency against the proforma invoice.

- **Non/delay in computerisation**

Out of 22 district transport offices, four district transport offices<sup>10</sup>, created (between January 2007 and April 2009) after implementation of *VAHAN* and *SARATHI*, along with four RTAs were yet to be computerised though the earmarked hardware and other peripherals had already been supplied to them.

We further observed that computerisation was restricted to district transport offices, RTA and STA offices. Other transport offices of MVIs and check posts had not been planned for computerisation in both the phases. No projects/proposals were

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<sup>9</sup> Jamtara, Latehar, Saraikela and Simdega.

<sup>10</sup> Jamtara, Latehar, Saraikela and Simdega.

found on record regarding computerisation of these offices even in Phase-II. These offices also perform important activities of the Department viz., issue and renewal of certificate of fitness to transport vehicles, driving test, checking of vehicles for update tax, permits etc., and collect considerable amount of revenue. Non-computerisation of these offices could lead to escapement of tax, leakage of revenue and most importantly, the activities of these offices remained outside the computerised system defeating the very objective of computerisation, i.e., to computerise all activities of the Department.

After we pointed out the matter (September 2011), the Government instructed (November 2011) NIC to look into the matter and ensured that these district transport offices would be computerised soon. Further reply has not been received.

- **Non/under utilisation of hardware/software**

We test checked the records of the Department which revealed that hardware/software/peripherals were purchased for all 24 districts including Khunti and Ramgarh. As Khunti and Ramgarh districts were not notified as transport districts by the Department (October 2011), the materials were supplied to the district transport offices, Hazaribag and Ranchi respectively, which were lying idle. Purchase of materials for non-transport districts and their supply to other district offices indicated improper project planning resulting in unfruitful expenditure on purchase of materials. Further, utilisation certificate for the amount paid was also not furnished by the agency (December 2011).

After we pointed out the matter (October 2011), the Government stated (November 2011) that as the process for notifying Khunti and Ramgarh as transport districts was in progress, the materials were purchased in anticipation. Further, NIC has been instructed to furnish utilisation certificate of ₹ 3.14 crore advanced by the Transport Department.

#### 4.8.6.1 Non-formation of project monitoring unit

As per the approved project proposal for phase– II of computerisation of the Department, a project monitoring unit (PMU) was to be created under the Transport Department for monitoring the implementation of this project by hiring suitable technical and non-technical manpower. NIC would extend technical support as and when required.

We observed that even after the supply and installation of earmarked hardware and other peripherals in the selected district transport offices under phase–II, no record was found regarding creation of PMU to manage and monitor the implementation. Had the department formed the PMU, issues relating to functioning of computerised system would have

been dealt with promptness and uniformity of the application system throughout the State could have been established. Non-formation of PMU indicated weak monitoring of progress of project implementation by the Department.

After we pointed out the matter (September 2011), the Government stated (November 2011) that action would be taken for formation of PMU. Further reply has not been received.

#### **4.8.7 State Register and National Register**

Creation of the State Register (SR) and National Register (NR) for registration and licences was the ultimate objective of computerisation in the Transport Department. The information captured at the district transport offices level was required to flow to the State Consolidated Register (SCR) to act as back up data for disaster recovery. Selected data from the SCR was to be replicated in the SR and flow to the NR. The NR was expected to act as a central repository of all crucial data/information. This would also enable users to avail the service on “Anywhere Service” basis. Apart from selective back up of the state level repository, the NR would also provide information to the Department of Road Transport, district transport offices, inter-State check post, security agencies and other services. Information<sup>11</sup> regarding SR and NR though called for (July 2011) was not furnished either by the Department or by the NIC. As such, the status of SR and NR could not be ascertained by audit. Non-creation/non-updation of SR and NR would not only defeat the objectives of computerisation in the Department but also fail in checking/correcting errors, mistakes and lacunae in the system. Monitoring of the system as a whole could also not be achieved unless SR and NR have been created/updated.

#### **4.8.8 Data transfer and connectivity**

As per status report on the Transport Project, as on 4 August 2010, connectivity of district transport offices with the data centre of NIC has been achieved in all the 18 computerised district transport offices in Jharkhand. But inter-connectivity amongst these district transport offices was not established as of August 2011. As a result, duplication<sup>12</sup> of data could not be ruled out.

After we pointed out the matter (September 2011), the Government assured (November 2011) that a policy decision, if required, would be taken in this regard, so that both way flow of data could be ensured to provide inter-connectivity with district transport offices as well as SCR.

#### **4.8.9 Data entry verification**

*Application controls relating to data entry verification include controls that help to ensure the proper authorisation, competence, accuracy and validity of transactions and to check possible invalid inputs and system enforced transaction controls to prevent users from performing transactions that are not part of their normal duties. Deficiencies noticed relating to data entry verification are discussed in the following paragraphs:*

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<sup>11</sup> Logs of transfer of data from SR to NR and database of SR & NR.

<sup>12</sup> Registration of one motor vehicle at more than one district transport office and issuance of multiple driving licences.

### 4.8.9.1 Irregularities due to inadequate input control

- **Identical engine/cover note/insurance policy number and irregular PAN**

We analysed the database of VAHAN of the selected district transport offices which indicated irregularities in the database viz., identical engine numbers of vehicles with corresponding chassis numbers made unidentical through manipulation of data by inserting space, hyphen, slash etc., in the field; identical cover note/insurance policy numbers of vehicles registered in different names/on different dates; the field for capturing PAN found blank and/or in format other than the prescribed format (10 digit alpha numeric). The details of the above cases are shown below:

Sl. No.	District transport office	Identical engine number		Identical cover note/insurance policy number			Non/improper capturing of PAN		
		No. of cases	Total no. of records	Blank	Duplicate	Total no. of records	Blank	Improper	Total no. of records
1	Bokaro	935	1,27,375	69,864	8	73,949	27,957	0	1,27,375
2	Hazaribag	264	1,69,964	85,575	6	91,447	26,208	35	1,69,964
3	Jamshedpur	769	2,80,948	1,43,076	0	1,43,513	61,290	198	2,80,948
4	Koderma	230	27,386	0	8	11,316	5,291	3	27,386
5	Ranchi	521	3,04,029	0	258	1,68,297	60,365	1,899	3,04,029
<b>Total</b>		<b>2,719</b>	<b>9,09,702</b>	<b>2,98,515</b>	<b>280</b>	<b>4,88,522</b>	<b>1,81,111</b>	<b>2,135</b>	<b>9,09,702</b>

- **Blank fields**

We analysed the database of VAHAN of the selected district transport offices, which indicated that the fields for capturing address of the vehicle owner, wheelbase, registered laden weight, unladen weight and purchase date of the vehicle in the database were found blank. Details of such cases are shown below:

Sl. No.	District transport office	Total number of records	Address of the owner	Wheel base of the vehicle	Registered Laden Weight of the vehicle	Unladen Weight of the vehicle	Purchase date of the vehicle
1	Bokaro	1,27,375	934	795	21	9,513	21,683
2	Hazaribag	1,69,964	848	779	129	6,169	8,533
3	Jamshedpur	2,80,948	112	1,746	121	13,410	27,673
4	Koderma	27,386	0	28	9	3	1,638
5	Ranchi	3,04,029	111	4,087	77	24,874	47,144
<b>Total</b>		<b>9,09,702</b>	<b>2,005</b>	<b>7,435</b>	<b>357</b>	<b>53,969</b>	<b>1,06,671</b>

Acceptance of identical cover note/insurance policy number, improper PAN and blank fields was indicative of inadequate input controls in the application. The application even lacked input controls on the vital field of engine number as unique. Consistency/reliability of data could not be ascertained as manipulation of data was possible. These inadequacies could lead to fake registration, incomplete information of vehicle owners, vehicle details etc. serving no purpose for information seeking agencies.

Mention was made in the Audit Report (Revenue Receipts) for the year ending 2003, Government of Jharkhand (Paragraphs 4.2.7 and 4.2.8) regarding issuance of registration certificates with identical engine and chassis number and issuance

of duplicate insurance certificate/cover note. The irregularity persisted even after introduction of the new software.

After we pointed out the matter (September 2011), the Government instructed (November 2011) the DTOs to rectify the irregularities and to ensure realisation of short fees, if any, from the concerned vehicle owners. Further reply has not been received.

• **Issuance of more than one licence/identical driving licence number**

Under the provisions of the MV Act and rules made thereunder, no person shall, while he holds any driving licence for the time being in force, hold any other driving licence except a learner's licence. Further, every driving licence (Smart Card) issued or renewed by the licensing authority shall be in Form 7. The application 'SARATHI' has provisions for auto generation of a unique driving licence number.

We analysed the database of SARATHI of the selected district transport offices which indicated that more than one licence was issued to a person. Further analysis indicated that identical driving licence numbers were issued to different persons as shown below:

Sl. No.	Name of the district transport office	Total no. of records	More than one licence to a person	Identical licence number
1	Bokaro	27,546	20	1
2	Hazaribag	29,611	8	0
3	Jamshedpur	70,708	75	2
4	Koderma	5,294	114	0
5	Ranchi	83,802	80	1
<b>Total</b>		<b>2,16,961</b>	<b>297</b>	<b>4</b>

Generation of identical licence number and acceptance of names with same date of birth and father's name indicated faulty/weak input as well as validation controls in the application software. Apart from above, misuse of the DLs could not be ruled out in case of offence committed by the licence holders.

After we pointed out the matter (September 2011), the Government instructed (November 2011) NIC to study the software in detail and take corrective measures either locally or with the help of NIC (Headquarter), New Delhi. The DTOs were also instructed to verify the data entry and rectify the error. Further reply has not been received.

**4.8.9.2 Delay in mapping of business rules**

Under the provisions of the BMV Rules, choice fee of ₹ 5,000 was to be realised, if a preferred registration number was sought for, from the vehicle owner at the time of registration of the vehicle. The amount of choice fee was enhanced (November 2007) ranging between ₹ 11,000 and ₹ 51,000 depending upon the registration number opted for.

We analysed the database of VAHAN of the selected district transport offices which indicated that in case of 34 vehicles registered with choice numbers, the software accepted fees of ₹ 5,000 or

less instead of leviable fee ranging between ₹ 11,000 and ₹ 51,000 which was in contravention to the provisions of the latest revision. We further analysed that the mapping of business rules in the application was delayed upto three years. This resulted in short realisation of choice fee of ₹ 5.20 lakh.

We test checked (November 2011) the manual records in all the three cases pertaining to the Jamshedpur district transport office. We found that choice fee of ₹ 66,000 was short levied involved in all these three cases. After we pointed out the matter, the DTO raised the demand of ₹ 66,000. Further, DTOs, Bokaro and Ranchi in their replies stated (December 2011) that manual records were checked in all the 17 cases (Bokaro: 3 and Ranchi: 14) pertaining to their offices and discrepancy was noticed in 11 cases (Bokaro: 3 and Ranchi:8) for which demands of ₹ 2.44 lakh have been raised. This confirms the fact that the business rules were not mapped in the system leading to short realisation of revenue.

#### 4.8.9.3 Non-adherence of central law in granting validity of driving licence

Under the provisions of the MV Act, validity of a driving licence, either original or on renewal, shall be till the age of attaining 50 years of the applicant. The Act, further stipulates that the driving licence shall be effective for a period of 20 years or the age of 50 years, whichever is earlier. Any further renewal of licence after 50 years shall be for a period of five years. Such amendment came into force from November 1994.

We analysed the database of *SARATHI* of the selected district transport offices which indicated that the provisions of the Act *ibid* had not been enforced on renewal of driving licence as detailed in the following table:

Sl. No.	Particulars	Number of cases					Total
		Bokaro	Hazaribag	Jamshedpur	Koderma	Ranchi	
1	Excess validity to licence holders in the age group of below 50 years	2	0	0	102	969	1,073
2	Less validity to licence holders in the age group of below 50 years	8	0	6	172	2,422	2,608
3	Excess validity to licence holders in the age group of above 50 years	0	0	0	2	62	64
4	Less validity to licence holders in the age group of above 50 years	72	10	0	5	149	236
<b>Total</b>		<b>82</b>	<b>10</b>	<b>6</b>	<b>281</b>	<b>3,602</b>	<b>3,981</b>

Excess validity ranged from 2 to 167 days whereas less validity ranged from 2 to 209 days. Further, we also noticed that the validity date was not automatically generated by the application, instead they were fed manually. Thus, deficient system design may result in incorrect assignment of validity date of licence.

After we pointed out the matter (September 2011), the Government replied (November 2011) that all provisions of the Acts and Rules must be strictly adhered to and instructed NIC to make provisions for auto generation of validity period of driving licence in the system. Further reply has not been received.

#### 4.8.9.4 Non-levy of penalty on delayed payment of tax

Under the provisions of the BMVT Rules, for vehicles other than personalised vehicles, the due date for payment of tax shall be the date of expiry of the period for which the tax had been paid. In cases where no tax has been paid previously, the date of acquisition of vehicle or the date when such tax is imposed by law shall be the due date of tax payment. The Rules further provides for imposition of penalty at the rates prescribed depending upon period of delay.

We analysed the database of VAHAN of the selected district transport offices which indicated that there was delayed payment of tax in 2,530 cases but penalty was not imposed in any of the above cases. We further noticed that the penalty was being calculated manually and fed in the software.

This indicated that business rules were not mapped in the application. This resulted in non-levy of penalty of ₹ 30.38 lakh.

We test checked (November 2011) the manual records of all the 378 cases pertaining to Jamshedpur district transport office and found that penalty of ₹ 44,726 was not levied in 150 cases. After we pointed out the matter, the DTO accepted the audit observation and stated that demand would be raised in these cases. Further, DTOs, Bokaro and Ranchi in their replies stated (December 2011) that manual records were checked in all the 1,707 cases (Bokaro: 444 and Ranchi: 1,263) pertaining to their offices and discrepancy was noticed in 1,208 cases (Bokaro: 93 and Ranchi: 1,115) for which demands of ₹ 3.22 lakh have been raised. This confirms the fact that the business rules were not mapped in the system leading to short realisation of revenue.

#### 4.8.9.5 Irregular issuance of NOC

Under the provisions of the BMVT Rules, if a vehicle owner, other than a personalised vehicle, changes his place of business, he may apply to the taxing officer to issue “No Objection Certificate” (NOC) for the place where he intends to change his place of business. On receipt of application, the taxing officer after verifying up-to-date payment of taxes against the vehicle, may issue NOC to the new taxing officer.

We analysed the database of VAHAN of the selected district transport offices which indicated that in three district transport offices<sup>13</sup> NOCs in 2,067 cases were issued to vehicles having arrears of taxes. Further, we noticed that though the software

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<sup>13</sup> Hazaribag, Jamshedpur and Koderma.

had provisions to issue NOC, the same were being issued manually, which defeated the very purpose of computerisation in the Department.

After we pointed out the matter (September 2011), the Government instructed (November 2011) all DTOs to stop manual issuance of NOC and to check the position of tax status before issue of NOC. Further reply has not been received.

#### 4.8.9.6 Non/Partial utilisation of modules

Under the provisions of MV Act read with BMV Rules, the owner of a motor vehicle may apply to the registering authority in Form 'C.R. Tem. A' along with prescribed fee to have the vehicle temporarily registered. The certificate of temporary registration shall be issued in Form 'C.R. Tem.' initially valid for one month.

- We analysed the database of *VAHAN* which revealed that though there was a provision for issuance of temporary registration mark under registration module, the module related to temporary registration was not put to use. Further, the

software also had a provision for entering theft reports of the vehicle in case of theft of a vehicle. We observed that only 38 cases of theft had been recorded in the database in Jamshedpur and Koderma, whereas no records of theft were found in the rest of the selected district transport offices. Thus, non-utilisation of these modules was fraught with the risk of fake transfer of vehicle, issue of duplicate registration certificate, irregular issue of NOC, irregular cancellation of Hire and Purchase Agreement etc.

Under the provisions of CMV Rules, any person who has been authorised to drive a goods carriage, carrying dangerous goods hazardous to human life, should possess the minimum educational qualification or the certificate referred under the Rule in addition to the existing driving licence to drive transport vehicles.

- We analysed the database of *SARATHI* which revealed that out of 1,31,783 driving licences, 16,414 licences were issued for driving of goods carriage but none of these were endorsed for driving goods carriage carrying goods of dangerous or hazardous nature to human life. Driving

goods carriage carrying goods of dangerous or hazardous nature without possession of valid certificate was fraught with risk to human life.

After we pointed out the matter (September 2011), the Government instructed (November 2011) all DTOs for utilisation of all the modules in the system so that manual intervention could be stopped.

#### 4.8.9.7 Acceptance of current tax without clearance of arrear

Under the provisions of the BMVT Act and rules made thereunder, tax is to be paid to the taxing officer in whose jurisdiction the vehicles have been registered. Non-payment of taxes in time attracts penalty at the rates prescribed depending upon periodicity of delay. The Act *ibid* further provides that the taxing officer shall not accept the tax or penalty for the current period unless arrear of taxes and penalty due has been fully paid or settled.

We analysed the database of VAHAN of the selected district transport offices which indicated that there was break in period of payment of tax in 5,249 cases which ranged from three to 298 months. This resulted in non-realisation of tax of ₹ 7.31 crore. We noted that

the application was not suitably designed to flag such cases of non-payment of tax in the table.

We test checked (November 2011) the manual records of 113 out of 117 cases pertaining to the Jamshedpur district transport office and found that in 10 cases payment of current tax was accepted though there were arrears of tax of ₹ 23,466 due for payment in these cases. After we pointed out the matter, the DTO accepted the audit observation and stated that demand would be raised in these cases. Further, DTOs, Bokaro and Ranchi in their replies stated (December 2011) that manual records were checked in all the 2,060 cases (Bokaro: 1,416 and Ranchi: 644) pertaining to their offices and discrepancy was noticed in 279 cases (Bokaro: 19 and Ranchi: 260) for which demands of ₹ 8.15 lakh have been raised. This confirms the fact that the system was not suitably designed to flag cases of non-payment of tax in the table.

#### 4.8.9.8 Loss of revenue due to irregular clearance of tax position

Under the provisions of the BMVT Act and rules made thereunder, tax is to be paid to the taxing officer in whose jurisdiction the vehicles have been registered. In case of change of residence/business, the owner of vehicle can pay tax to the new Taxing Officer subject to production of “No Objection Certificate (NOC)” from the previous taxing officer. Taxes in respect of a motor vehicle is payable within fifteen days from commencement of the quarter or year, as the case may be. Further, the BMVT Rules provides for imposition of penalty at the rates prescribed depending upon periodicity of the delay.

We analysed the database of VAHAN of the selected district transport offices which indicated that in case of 404 registered commercial vehicles, the entries in the field **Clear\_To\_date**<sup>14</sup> was found for a later date than the entries in the field **Tax\_Upto\_date**<sup>15</sup>. As such, in the above cases, tax clearance was granted for a period in excess of the period for which the tax was actually paid. Verification of records maintained manually indicated that irregular clearance of tax position was due to manual

<sup>14</sup> Clear\_To\_date: Date up to which clearance from tax liability.

<sup>15</sup> Tax\_Upto\_date: Date upto which tax has been paid.

feeding. Deficiencies in the application to fetch the entries into the concerned fields automatically, resulted in loss of revenue amounting to ₹ 66.49 lakh in the shape of road and additional tax.

We test checked (November 2011) the manual records of all the 25 cases pertaining to Jamshedpur district transport office and found that in five cases, tax clearance was granted for a period in excess of the period for which the tax was actually paid resulting in short levy of tax of ₹ 5,033 involved in these cases. After we pointed out the matter, the DTO accepted the audit observation and stated that demand would be raised. Further, DTOs, Bokaro and Ranchi in their replies stated (December 2011) that manual records were checked in all the 134 cases (Bokaro: 42 and Ranchi: 92) pertaining to their offices and discrepancy was noticed in eight cases (Bokaro: Seven and Ranchi: One) for which demands of ₹ 59,919 have been raised. In view of the facts stated above, the Department needs to verify all such cases in the interest of Government revenue.

#### 4.8.9.9 Gap in issuance of registration numbers

The application of VAHAN had provisions for allotment of a registration number in series, if not opted for any choice number.

We test checked the series of issuance of registration numbers and analysed the database of VAHAN of the selected district transport offices which indicated that in three district transport offices<sup>16</sup> there were gaps in issuance of registration number on 52 occasions other than those reserved for issue of choice numbers. The registration numbers were to be issued in sequence but some of the serial numbers were blank without any reason on record. Acceptance of entries for registration to a subsequent number despite availability of a previous number was indicative of inadequate process control in the software.

We test checked (November 2011) the manual records of all the three cases pertaining to Jamshedpur district transport office and found that in two cases, owner table was blank due to which the system showed gap in registration number while in one case the number was to be assigned. After we pointed out the matter, the DTO also confirmed the facts as pointed out by us but no reasons were furnished for the same.

#### 4.8.9.10 Identical/blank registration certificate card chip number

The data from the application 'VAHAN' was being used by the vendors for issuance of registration certificates.

We analysed the database of VAHAN of the selected district transport offices which indicated that in 616 cases, Registration Certificates (RC) were issued with duplicate/identical smart card chip number and in 112 cases, RCs were issued with blank smart card chip number. The application was not suitably designed so as to prevent issue of such RCs with duplicate/blank chip numbers which was open/susceptible to risk of issuance of fake RCs. We also noticed that smart card readers provided by the vendor were not put in use by the DTOs and Enforcement Officers. As such, the purpose of generation of smart card based RCs was defeated.

<sup>16</sup> Jamshedpur, Koderma and Ranchi.

After we pointed out the matter (September 2011), the Government directed (November 2011) NIC to examine the cause for such irregularities. Further reply has not been received.

#### 4.8.9.11 Issue of registration certificate with incorrect particulars

The registration module of the application VAHAN was provided with the facility of calculation of road tax value automatically based on the vehicle class and other parameters. The values could not be changed and would be committed automatically. In case of two wheelers, unladen weight was the parameter for calculation of one time tax of ₹ 1,200 for vehicles below/up to 100 Kg and ₹ 1,500 for vehicles more than 100 Kg.

We analysed the database of VAHAN of the selected district transport offices which indicated that in case of 1,298 registered two wheelers, exceeding unladen weight of 100 Kg, one time tax was shown realised at the rate of ₹ 1,200 instead of correct amount of ₹ 1,500. We further noticed that the weight of the

vehicles, as per registration register maintained manually, were below/up to 100 Kg. The application lacked provision of rejection of the cases with lesser fee/taxes at the time of capturing specifications of the vehicle. Thus, the database did not reflect the true picture of tax realisable and tax realised and thus, was unreliable. Further, the RCs were also being issued with incorrect unladen weight and chances of short levy of tax of ₹ 3.89 lakh (calculated at the rate of differential amount of ₹ 300 per vehicle) could not be ruled out.

We test checked (November 2011) the manual records of all the 103 cases pertaining to Jamshedpur district transport office and found that one time tax was realised on the basis of unladen weight of the vehicles as recorded in the sale certificate. Due to non-updation of master table, the unladen weights did not match with that of the registered vehicles. After we pointed out the matter, the DTO also confirmed the facts as pointed out by us but reasons were not furnished for the same.

#### 4.8.9.12 Inflated demand against vehicles issued “No Objection Certificates”

Under the provisions of the MV Act, the CMV Rules read with the BMVT Act and the BMVT Rules, the taxing officer after satisfying that there are no arrears outstanding against the vehicle shall issue NOC and forward the same to the new taxing officer. The new taxing officer after having received the NOC shall accept further taxes from the owner.

We conducted a comparative study of the dispatch register/ NOC issue register along with the application generated tax position of the defaulter vehicles. We noticed in four selected district transport offices<sup>17</sup> that despite the provision in the application for issuance of NOC, 1,548

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<sup>17</sup> Bokaro, Hazaribag, Koderma and Ranchi.

vehicles were issued NOCs manually for other States/districts. As a result, demand against these vehicles was continuously raised in the application since November 2005. This resulted in inflated demand of ₹ 10.53 crore showing erroneous arrears of tax against the vehicles.

After we pointed out the matter (September 2011), the Government instructed (November 2011) all DTOs to stop manual issuance of NOC so that such inflated demand could be stopped and also assured to take action to make provision for backlog entry of the manually issued NOCs. Further reply has not been received.

#### 4.8.9.13 Non-assignment of local registration mark

Under the provisions of the MV Act and rules made thereunder, where a motor vehicle belonging to other State was intended for use/kept in the State for a period exceeding 12 months, the owner on furnishing a declaration to that effect was to submit an application to the registering authority accompanied by NOC along with appropriate fee at any time within 12 months for assignment of local registration mark to the vehicle. If the vehicle owner failed to apply within 12 months, he was required to pay a penalty, which may extend to ₹ 100 for the first and ₹ 300 for second or subsequent offences.

We analysed the database of VAHAN of the selected district transport offices which indicated that 2,888 transport vehicles remained in the districts for a period beyond 12 months with registration numbers of the previous States without having been assigned local registration mark. The application had not been designed in such a way to prompt/

restrict the cashier/user from receiving taxes of such vehicles for a period beyond 12 months. This resulted in loss of revenue in the shape of assignment fees of ₹ 15.51 lakh, besides penalty.

We test checked (November 2011) the manual records of all the 1,205 cases pertaining to Jamshedpur district transport office. We found that even after lapse of more than one year, local registration mark was not assigned to them, thus, ₹ 6.28 lakh involved in these vehicles stood realisable. After we pointed out the matter, the DTO accepted the audit observation and stated that the vehicles, being commercial vehicles, the assignment fees would be realised from the vehicle owners at the time of payment of quarterly tax. In view of the facts stated above, the Department needs to verify all such cases in the interest of Government revenue.

#### 4.8.9.14 Non-transfer of service tax in appropriate head

Under the provisions of the Service Tax Rules read with executive instruction (December 2006) of the Transport Commissioner, Jharkhand, service tax at the rate of 12.24 per cent was to be levied at the time of issue of certificate of fitness. The service tax so collected was required to be deposited under the head “0044 - Service Tax”.

We analysed the database of VAHAN of the selected district transport offices which indicated that service tax of ₹ 98.41 lakh was collected at the time of new registration of

vehicles during the period from 2 June 2005 to 18 July 2011. The amount collected as service tax was deposited under head '0041 - Taxes on Vehicles' instead of '0044 - Service Tax', which was irregular. We also noticed that the amount of service tax was calculated at the rate of 12.50 *per cent* and entered manually at the time of collection of fee instead of being automatically calculated by the application. Moreover, fitness fee including service tax was directly deposited in the banks at the time of renewal of certificate of fitness, as such, we could not ascertain the total amount of service tax realised. The system also did not generate any report on service tax collected so that at any point of time amount of tax collection was known to the Department. Thus, ₹ 98.41 lakh was irregularly retained as "Taxes on Vehicles" which should have been credited to the Government of India.

After we pointed out the matter (September 2011), the Government instructed (November 2011) NIC to make necessary changes in the table structure so that the amount of service tax could be calculated separately and transferred to the appropriate head. Further reply has not been received.

#### 4.8.10 General Controls

*General controls create the environment in which the application systems and application controls operate e.g., IT policies, standard and guidelines pertaining to IT security and information protection. The deficiencies noticed during audit are discussed in the following paragraphs:*

##### 4.8.10.1 Lack of information security

We noticed that the Secretary, DoIT had informed (December 2005) the Transport Commissioner regarding breaches of password discipline, absence of well-defined hierarchy of privileges and inadequate data logs. He requested the Transport Commissioner to review and scrutinise the standard operating procedures. The Secretary further informed (August 2006) the Transport Commissioner regarding unauthorised access and manipulation of data in the transport software.

- **Non-provision of audit trail in VAHAN and SARATHI applications**

Audit trail is incorporated in an IT application for tracing the flow of transaction at every point of processing from the input to the output stage.

We analysed the database of VAHAN and SARATHI which revealed that there was no audit trail built in the applications to capture activities of the users such as log of programs and transactions executed. Even the minimum audit trail, i.e., login/logout date/time of the users, was not captured in the database. In the absence of an audit trail, apart from errors that might creep into the system, there was a possibility of fraud, which might occur due to undetected control weaknesses. Even after a lapse of five years of reported breach of security, the Department did not make a provision for an audit trail in the system rendering the system vulnerable to such threats.

- **Inadequate password policy**

VAHAN and SARATHI applications restrict access to the system through user-IDs and password.

We noticed that the Transport Commissioner issued (November 2006) a password policy to be followed by all transport offices. We further observed that normal password control practices like restriction on unsuccessful login attempts, automatic lapse of password after a pre-defined period, application enforced, periodical change of password and pre-defined length of password with specific combination of characters were non-existent. Even after a lapse of five years of issue of the password policy, the Department failed to make provision for normal password control practices in the system and exposed the system to the risk of unauthorised access and consequent damages.

After we pointed out the matter (September 2011), the Government accepted (November 2011) that there was no audit trail in the system and stated that NIC would be requested for provision of audit trail in the system. The Government also instructed NIC to make necessary changes in the system regarding password policy. Further reply has not been received.

- **Inadequate segregation of duties**

We found that the user-IDs and passwords were being shared by the users of the applications. Further, it was observed that the role of approver was performed by the operators itself and that permission to access the menus, accessed by officers or administrators, was allowed to be accessed by the operators. The situation was susceptible with the risk of unaccountability and malpractices. The Department had not undertaken any risk assessment though requested by the Secretary, DoIT, thereby rendering the system vulnerable to misuse. A few illustrative cases are mentioned in the following table:

District Transport Office	User-ID	Type of user	Access to menu	Role utilised
Bokaro	Manoj	Operator	Manage master tables	Administrator
	Opr	Operator	Tax exemption	Officer
Jamshedpur	Sajid	Operator	Change of registration data	Administrator
	Amit	Clerk	Fitness Cancellation	Officer

After we pointed out the matter (September 2011), the Government accepted (November 2011) that this was a serious issue and instructed all DTOs that the controlling officers shall be held responsible for inadequate segregation of duties. Further reply has not been received.

#### 4.8.10.2 Lack of change management control

We observed that there was no documentation of the modifications in the software, its approval and testing, though modifications of choice fee in November 2007 and enhancement of one time tax on personalised vehicles in May 2011 had been made in the software. Thus, there was a risk of accidental or malicious changes to the system and data due to inadequate change management control.

After we pointed out the matter (September 2011), the Government instructed (November 2011) NIC for documentation of the changes made in the software. Further reply has not been received.

#### **4.8.10.3 Absence of business continuity planning**

Business continuity plan is essential to ensure that the organisation can prevent disruption of business and resume processing in the event of a total or partial interruption of information availability. Regular backup of data is the backbone of such business continuity plan.

We noticed that there was no backup policy and disaster recovery procedure evolved by the Department. Though backup of data was taken by NIC through a server directly connected with the data centre of NIC, Jharkhand, there was

no documented procedure regarding frequency of taking backup and its storage location and restoration for testing of backup data.

We further noticed that the work relating to issue of RCs and DLs in Bokaro and Koderma was disrupted due to system break down which ranged from two to five days. The DTOs stated (August 2011) that at the time of system breakdown work was performed manually. Thus, due to non-formulation of backup policy and disaster recovery procedure, manual operation was resorted to which defeated the very purpose of computerisation.

After we pointed out the matter (September 2011), the Government instructed (November 2011) NIC to develop a business continuity plan. Further reply has not been received.

#### **4.8.10.4 Working on national holidays**

The Transport Department and all the transport offices are closed on national holidays.

Our analysis of database of *VAHAN* of the selected district transport offices indicated that following work was conducted on national holidays:

- Operation of registration field in 1,516 cases;
- Allotment of registration mark in 1,165 cases; and
- Fitness of vehicles in nine cases.

After we pointed out the matter (September 2011), the Government instructed (November 2011) all DTOs to take adequate measures for prevention of unauthorised work, if works were done due to workload on national holidays.

### 4.8.11 Status of National Permit System

National Permit System (NPS), an online electronic system to grant National Permit (NP), was developed in consultation with the NIC and was implemented (15 September 2010) in the State at the Directorate level. As per gazette notification dated 28 July 2010, Central Government notified the details of NP account and share of the States and Union Territories in which the share of Jharkhand was ₹ 604 for every ₹ 15,000.

We obtained data regarding issuance of NPs from the Transport Commissioner which revealed that since September 2010, a total of 11,852 NPs were issued through NPS as of August 2011. But due to non-establishment of connectivity of the Directorate with the district transport offices, apart from duplication of entry of vehicle details,

authenticity of the data regarding ownership/registration details of vehicles, up-to-date position of tax etc., could not be verified in the computerised environment at the Directorate level, which defeated the very objective of computerisation of the Transport Department.

After we pointed out the matter (September 2011), the Government agreed (November 2011) to establish connectivity so that authenticity of data could be checked. Further reply has not been received.

### 4.8.12 Monitoring issues

#### 4.8.12.1 Non-renewal of contract

The Transport Department partially outsourced the computerised system under *VAHAN* and *SARATHI* application software by executing a contract (September 2004) for five years with the vendors for the work relating to issuance of Smart Card based DL, RC, Tax payment and Permits on BOOT system.

We observed that the contract with the vendors had expired in September 2009 but the vendors continued the work allotted to them (September 2011) without renewal of agreement even after a lapse of two years. Unauthorised continuance of

work by the vendors was neither objected by the Department nor was any action taken by the Department for renewal of the contract. Such unauthorised work was fraught with the risk of loss of revenue and misuse of vital data, besides leading to the possibility of legal complications. This indicated poor monitoring by the Department.

After we pointed out the matter (September 2011), the Government replied (November 2011) that the process has been initiated for tendering of work of issue of smart card. Further reply has not been received.

#### 4.8.12.2 Non-formulation of training plan

As per the decision of IDCIM (December 2003) training for five days for assistants and two days for district transport officers/regional transport officers was to be conducted. Under phase-I and II of computerisation of the Department, NIC was responsible for imparting training on *VAHAN* and *SARATHI* to staff/officers and provide technical support on matters related to the application software.

We observed that though training programmes were conducted during phase-I, no record was found regarding training plan, schedules, proposals etc., under phase – II. The Department also failed to pursue NIC to conduct training of staff/officers of the Department under phase-II for smooth functioning of the

computer system. Thus, due to non-formulation of training programme, the staff were not acquainted with the changes/updation in the system which resulted in irregularities, discrepancies in data and dependence on manual operation of business processes continued.

After we pointed out the matter (October 2011), the Government stated (November 2011) that training plan would be formulated shortly. Further reply has not been received.

#### 4.8.13 Conclusion

The system/design deficiencies of NICTRAN application was highlighted by us through Audit Report (Revenue Receipts) for the year ended 31 March 2003 (Paragraph 4.2) and discussed in Public Accounts Committee in July 2007. The applications *VAHAN* and *SARATHI* have been developed without considering the drawbacks of NICTRAN application as similar system/design deficiencies still persisted in these applications. Complete translation of essential business processes was not ensured. Even after seven years of its implementation, the objective to enhance the information availability and computerisation of all transport offices to ensure transparency, better service delivery and plugging of revenue leakage could not be achieved and dependence on manual operation of business processes continued.

#### 4.8.14 Recommendations

The Government may consider to:

- issue instruction for strict adherence of the prescribed rules and procedures;
- formulate a suitable mechanism to ensure inter-connectivity within the Department;
- provide built-in checks in the IT application to ensure accuracy and completeness of data;
- provide facility in the application for auto generation of tax clearance;
- provide facility for calculation and transfer of service tax separately; and
- frame and implement business continuity procedures, disaster recovery plans, train departmental staff to reduce dependency on outside agencies, ensuring an audit trail, password and user ID policies.

## Other audit observations

### 4.9 Non-observance/compliance of the provisions of Acts/Rules

*The Bihar Motor Vehicles Taxation (BMVT) Act, 1994 (as adopted by the Government of Jharkhand), Motor Vehicles Act, 1988, Bihar Financial Rules (as adopted by the Government of Jharkhand) and Rules made thereunder provide for:*

- (i) *payment of motor vehicles tax by the owner of vehicles at the prescribed rate;*
- (ii) *timely deposit of collected revenue into the Government account; and*
- (iii) *payment of registration fee at the prescribed rate.*

*We noticed that the Transport Department did not observe some of the provisions of the Act/Rules in cases as mentioned in the succeeding paragraphs:*

### 4.10 Non-collection of vehicles taxes

Under the provisions of the BMVT Act and the rules made thereunder, the owner of a registered vehicle other than a personal vehicle is liable to pay tax after the date of expiry of the period for which the tax had been paid to the taxing officer in whose jurisdiction the vehicle is registered. In case of non-payment of tax within the stipulated period, the taxing authority may impose penalty at the prescribed rates. If the delay in payment of tax exceeds 90 days, penalty at twice the amount of tax due may be imposed. The DTOs are required to issue demand notices against the defaulters.

**4.10.1** We checked the taxation register and the computerised data in 19 district transport offices<sup>18</sup> between May 2010 and March 2011 and found that the owners of 1,251 vehicles did not pay tax between July 2006 and March 2011. No reasons were found

on record for non-payment of tax. The DTOs did not raise demand against the defaulting vehicle owners resulting in non-levy of tax of ₹ 9.17 crore including penalty of ₹ 6.12 crore.

After we pointed out the matter, 14 DTOs<sup>19</sup> stated (between November 2010 and October 2011) that demand notices have been issued in 718 cases, of which certificate cases have been instituted in 300 cases pertaining to six DTOs<sup>20</sup> and ₹ 66.22 lakh involved in 108 cases have been recovered by eight DTOs<sup>21</sup>. However, the remaining five DTOs<sup>22</sup> stated (between August 2010 and March 2011) that

<sup>18</sup> Bokaro, Chatra, Chaibasa, Deoghar, Dhanbad, Dumka, Godda, Gumla, Hazaribag, Jamshedpur, Jamtara, Koderma, Latehar, Lohardaga, Pakur, Palamu, Ranchi, Saraikela-Kharsawan and Simdega.

<sup>19</sup> Bokaro, Chatra, Deoghar, Dumka, Gumla, Hazaribag, Jamshedpur, Jamtara, Latehar, Lohardaga, Pakur, Ranchi, Saraikela-Kharsawan and Simdega.

<sup>20</sup> Bokaro, Jamshedpur, Jamtara, Latehar, Lohardaga and Pakur.

<sup>21</sup> Bokaro, Deoghar, Hazaribag, Jamshedpur, Lohardaga, Pakur, Ranchi and Saraikela-Kharsawan.

<sup>22</sup> Chaibasa, Dhanbad, Godda, Koderma and Palamu.

demand notices would be issued against the defaulters. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

**4.10.2** We noticed (May 2010 to March 2011) from verification of taxation registers in 17 district transport offices<sup>23</sup> that the owners of 1,583 trailers did not pay road tax and additional motor vehicle tax for the period between June 2006 and January 2011. The DTOs did not raise demand against the defaulters. Failure of the DTOs to enforce the provisions of the Act/Rules resulted in non-levy of tax of ₹ 1.94 crore including penalty of ₹ 1.29 crore.

After we pointed out the matter, 12 DTOs<sup>24</sup> stated (between November 2010 and October 2011) that demand notices have been issued in 999 cases, out of which certificate cases have been instituted in 291 cases pertaining to five DTOs<sup>25</sup> and ₹ 11.06 lakh involved in 130 cases have been recovered by nine DTOs<sup>26</sup>. However, the remaining five DTOs<sup>27</sup> stated (between August 2010 and March 2011) that demand notices would be issued against the defaulters. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

#### **4.11 Short realisation of trade tax**

Under the BMVT Act, trade tax at the annual rate specified in Schedule-III shall be paid by a manufacturer/dealer in respect of motor vehicles held in possession by him in the course of business. A dealer is required to pay the tax annually at the close of financial year on the basis of returns submitted by him. In case of non-payment of tax within the stipulated period, the taxing authority may impose penalty at the prescribed rates. If the delay in payment of tax exceeds 90 days, penalty at twice the amount of tax due may be imposed.

While reviewing the trade tax register and files of District Transport Offices, Bokaro and Deoghar, between July 2010 and March 2011, we noticed that 11 dealers of motor vehicles were liable to pay trade tax of ₹ 3.51 lakh for the period 2007-08 and 2009-10. No payment was made during 2007-08 and

2008-09 and only two dealers had submitted the prescribed returns and deposited trade tax of ₹ 1.22 lakh during 2009-10. The returns were neither scrutinised by the DTOs nor were demands raised against the dealers resulting in short payment of trade tax of ₹ 7.83 lakh including penalty of ₹ 5.54 lakh.

<sup>23</sup> Bokaro, Chatra, Chaibasa, Deoghar, Dhanbad, Dumka, Godda, Gumla, Hazaribag, Jamshedpur, Jamtara, Koderma, Lohardaga, Pakur, Palamu, Ranchi and Simdega.

<sup>24</sup> Bokaro, Chatra, Deoghar, Dumka, Gumla, Hazaribag, Jamtara, Jamshedpur, Lohardaga, Pakur, Ranchi and Simdega.

<sup>25</sup> Bokaro, Jamshedpur, Jamtara, Lohardaga and Pakur.

<sup>26</sup> Bokaro, Chatra, Deoghar, Gumla, Hazaribag, Jamshedpur, Lohardaga, Pakur and Ranchi.

<sup>27</sup> Chaibasa, Dhanbad, Godda, Koderma and Palamu.

After we pointed out the matter, the DTOs stated (between April and June 2011) that demand notices have been issued in all the cases, out of which, certificate cases have been instituted in 10 cases and recovery of ₹ 17,000 involved in one case, has been made by DTO, Bokaro. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

#### 4.12 Loss of interest due to delay in deposit of revenue collected by banks

Under the provisions of the Bihar Financial Rules, all transactions must be brought to account without delay and money received as Government dues should be credited to public account. As per instructions of STC, Jharkhand the amount collected by the banks during April to February should be transferred to the State Bank of India (SBI), Doranda Branch, Ranchi in such a manner that all receipts during a particular month are transferred latest by the first week of the following month and for March by 31 March positively. As per the instructions issued by the Reserve Bank of India in April 2003, interest at the rate of eight *per cent* per annum on average quarterly balance exceeding ₹ one crore, is payable by the banks on delayed remittances.

We noticed during the test check of bank statements of remittances of collected revenue in four district transport offices<sup>28</sup> between June 2010 and September 2010 that the collecting banks i.e. Punjab National Bank and Axis Bank did not credit the collected revenue into SBI, Doranda Branch for credit into Government account, within the prescribed time. The delays ranged from one month to 11 months and ₹ 18.31 crore was retained at the end of March 2010. Further, the

collecting banks did not credit interest of ₹ 1.65 crore during 2008-09 and 2009-10 for delayed transfer of the Government revenue. There was nothing on record to show that the Department pursued the matter of payment of interest with the collecting banks.

After we pointed out the matter, the DTO, Jamshedpur stated (August 2011) that certificate case has been instituted against Punjab National Bank, while remaining three DTOs stated that the matter would be referred to the bank authorities for timely transfer of collected revenue. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

<sup>28</sup> Bokaro, Dhanbad, Jamshedpur and Ranchi.

#### 4.13 Non-levy of tax on vehicles involved in surrender

The BMVTA, as adopted by the Government of Jharkhand and rules made thereunder, provide that if the owner of a motor vehicle does not intend to use his vehicle for a certain period not exceeding six months at a time, he can be exempted from payment of tax by the competent authority provided his claim for exemption is supported by the required documents. For the period of non-use of the vehicle, he is entitled for exemption from payment of tax only after following the prescribed procedure. In the absence of any extension, the vehicle would be deemed to have been used and the vehicle owner would be liable to pay tax. If the delay in payment of tax exceeds 90 days, penalty at twice the amount of tax due may be imposed.

We noticed (August 2010 and January 2011) from test check of the surrender registers of District Transport Offices, Jamshedpur and Hazaribag that 12 vehicles were surrendered between July 2008 and July 2009. However, even after the expiry of the prescribed period, the vehicles were kept under surrender without the owner seeking further extension and furnishing fresh undertaking, for non-use of vehicle during the period, in contravention of the provision of the Act. Thus, the vehicle owners were liable to pay tax and penalty for the period from January 2009 to January 2011. The DTOs, however, did not raise demand

against the vehicle owners after the expiry of prescribed surrender period. This resulted in non-levy of tax of ₹ 8.60 lakh including penalty of ₹ 5.73 lakh.

After we pointed out the matter, the DTO, Jamshedpur stated (August 2011) that certificate cases have been instituted in all the cases, while DTO, Hazaribag stated (January 2011) that demand notices would be issued. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

**CHAPTER-V**  
**OTHER TAX RECEIPTS**

## EXECUTIVE SUMMARY

<b>Marginal increase in tax collection</b>	In 2010-11, the collection of stamp duty and registration fees increased by 37.85 <i>per cent</i> over the previous year which was attributed by the Department to increase in valuation of property.
<b>Internal audit not conducted</b>	No information regarding setting up of internal audit wing in the Department was furnished to us though called for. Further, audit was also not conducted by the Finance Department during this period.
<b>Analysis of arrears of revenue</b>	There was marginal increase in arrears of revenue over the previous year. The Department did not furnish the information regarding addition and clearance of the arrears during the year(s). Figures of arrears outstanding for more than five years were also not made available by the Department. As per the information furnished by the Department, recovery of the entire amount of arrear of ₹ 1.57 crore was held up due to rectification/review of applications.
<b>Results of audits conducted by us in 2010-11</b>	<p>In 2010-11, we test checked the records relating to Electricity duty and entry tax where we found non/short realisation of duty/tax involving ₹ 73 lakh in five cases.</p> <p>During the course of the year, the Department did not intimate about acceptance of our observations.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present illustrative cases of ₹ 48.06 lakh selected from observations noticed during our test check of records during 2009-10 relating to Stamp duty &amp; Registration fees and Electricity duty in the office of the District Sub-Registrar and Dy. Commissioner of Commercial Taxes, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action.</p>
<b>Our conclusion</b>	<p><b>The Department needs to improve the internal control system including arranging for internal audit so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future. The Department also needs to lower the cost of collection as the percentage of expenditure on collection was significantly higher than the All India average during 2006-11.</b></p> <p>It also needs to initiate immediate action to recover the non-realisation, undercharge of tax, etc pointed out by us, more so in those cases where it has accepted our contention.</p>

## CHAPTER- V : OTHER TAX RECEIPTS

### A. STAMP DUTY AND REGISTRATION FEES

#### 5.1 Tax administration

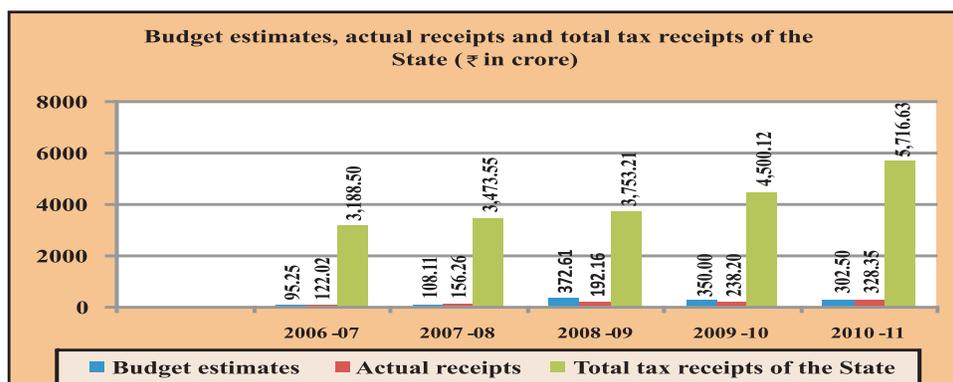
The levy and collection of Stamp Duty and Registration Fees in the State is governed by the Indian Stamp (IS) Act, 1899 and rules made thereunder and the Registration Act, 1908. On creation of the State of Jharkhand with effect from 15 November 2000, the existing Acts, Rules and executive instructions of the State of Bihar were adopted by the State of Jharkhand. At the apex level, the Inspector General of Registration, Jharkhand is responsible for administration of the Acts and Rules in the State. He is assisted by a Deputy Secretary, an Assistant Inspector General (AIG) at the headquarters, an Inspector of Registration and 24 District Sub-Registrars (DSRs)<sup>1</sup> and eight Sub-Registrars (SRs)<sup>2</sup>. The Inspector of Registration is responsible for inspection of all the five divisions<sup>3</sup> of the State, while DSRs and SRs are the primary units responsible for levy and collection of stamp duty and registration fees under the IS Act and the Registration Act.

#### 5.2 Trend of receipts

Actual receipts from Stamp Duty and Registration Fees during the period 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and chart:

(₹ in crore)

Year	Budget estimates (BEs)	Actual receipts	Variation excess (+)/ shortfall (-)	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	95.25	122.02	(+) 26.77	3,188.50	3.83
2007-08	108.11	156.26	(+) 48.15	3,473.55	4.50
2008-09	372.61	192.16	(-) 180.45	3,753.21	5.12
2009-10	350.00	238.20	(-) 111.80	4,500.12	5.29
2010-11	302.50	328.35	(+) 25.85	5,716.63	5.74



<sup>1</sup> Bokaro, Chatra, Chaibasa, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribag, Jamshedpur, Jamtara, Koderma, Khunti, Latehar, Lohardaga, Pakur, Palamu, Ranchi, Ramgarh, Sahebganj, Simdega and Saraikela.

<sup>2</sup> Barhi, Chakardharpur, Ghatsila, Hussainabad, Jamua, Nagarutari, Rajdhanwar and Tenughat.

<sup>3</sup> Dumka, North Chotanagpur, Kolhan, Palamu and South Chotanagpur.

It would be seen from the above that there was wide variation between the BEs and the actuals. It was as high as 45 per cent above the BE during 2007-08 and as low as 48 per cent during 2008-09 below the BE. Further, the BEs for 2007-08 were less than the actuals of the preceding year (2006-07) while during 2008-09 the BEs were more than the actual receipts for 2007-08 by 138 per cent. This indicates that the BEs were not prepared on realistic basis as BEs are an important part of the financial planning of the Government, these should be close to the actuals.

**We recommend that the Government may issue suitable instructions for preparing the BEs on a realistic and scientific basis to ensure that these are close to the actual receipts.**

### 5.3 Cost of collection

The gross collection under Stamp Duty and Registration Fees, expenditure incurred on their collection and the percentage of such expenditure to gross collection during 2006-07 to 2010-11 are mentioned in the following table:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the preceding year
2006-07	122.02	9.86	8.08	2.87
2007-08	156.26	7.81	5.00	2.33
2008-09	192.16	9.91	5.16	2.09
2009-10	238.20	10.98	4.61	2.77
2010-11	328.35	15.39	4.69	2.47

Source : Finance Account of the Government of Jharkhand for the year 2010-11 and Departmental figures.

The above table indicates that the percentage of expenditure on collection was higher than the All India average in each year.

**We recommend that the Government may consider looking into the higher cost of collection and take steps to bring it down.**

### 5.4 Working of internal audit wing

No information regarding setting up of internal audit wing in the Department was furnished to us though called for. Further, audit was also not conducted by the Finance Department during this period.

### 5.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 1.57 crore. The year wise position of arrears of revenue during the period 2006-07 to 2010-11 is depicted below:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2006-07	1.54	1.42
2007-08	1.42	1.63
2008-09	1.63	1.45
2009-10	1.45	1.53
2010-11	1.53	1.57

Though there was marginal increase in arrears of revenue from the previous

year, the Department did not furnish information regarding addition and clearance of the arrears during the year(s). Figures of arrears outstanding for more than five years were also not made available by the Department. As per the information furnished by the Department, recovery of the entire amount of arrear of ₹ 1.57 crore was held up due to rectification/review of applications.

**The Government may consider issuing directions to the Department for speedy settlement of the arrear cases by constant monitoring.**

## 5.6 Results of audit

Our test check of the records relating to electricity duty and entry tax in 2010-11 revealed non/short levy of duty/tax involving ₹ 73 lakh in five cases which fall under the following categories:

(₹ in lakh)

Sl. No.	Categories	No. of cases	Amount
<b>Electricity Duty</b>			
1	Short levy of electricity duty	1	46.00
2	Non/short levy of surcharge	1	17.00
3	Other cases	2	0.00
	<b>Total</b>	<b>4</b>	<b>63.00</b>
<b>Entry Tax</b>			
1	Non/short levy of tax	1	10.00
	<b>Total</b>	<b>1</b>	<b>10.00</b>
<b>Grand total</b>		<b>5</b>	<b>73.00</b>

During the course of the year, the Department did not intimate about acceptance of our observations.

In this Chapter we present a few illustrative cases of recoverable financial implication of ₹ 48.06 lakh pointed out by us during 2009-10, out of which the Government/Department has accepted audit observation of ₹ 48.06 lakh.

## 5.7 Non-observance of the provisions of Acts/Rules

*The Indian Stamp Act, 1899 (as adopted by the Government of Jharkhand), the Registration Act, 1908, Bihar Government Estate (Khas Mahal) Manual, 1953, Bihar Electricity Duty Act, 1948, Bihar Financial Rules (as adopted by the Government of Jharkhand) and Rules made thereunder provide for:*

- (i) *payment of registration fee at the prescribed rate;*
- (ii) *payment of stamp duty by the executants at the prescribed rate;*
- (iii) *non-disposal of leasehold land by sale; and*
- (iv) *payment of electricity duty at the prescribed rate.*

*We noticed that the Registration Department did not observe some of the provisions of the Act/Rules in cases as mentioned in the succeeding paragraph:*

## 5.8 Misclassification of instruments

Under the provisions of Government Estates (*Khas Mahal*) Manual, a leasehold land cannot be sold. It can, however, be leased or sub-leased to different persons. Stamp duty is chargeable as per Schedule I-A to Indian Stamp Act. Further, registration fee is chargeable at the rate of four *per cent* of consideration value in case of lease deeds while it is one *per cent* in case of sale deeds. Further, it has judicially been held\* that in determining stamp duty payable on a document, the substance of the transaction has to be looked into and not merely the operative part of the instrument.

\* Smt. Hemanta Kumari Patnaik Vrs. Surya Narayan Acharya AIR 1992 Orissa I.

We test checked (May 2010) the sale deeds in DSR, Jamshedpur which indicated that Tata Steel Ltd. (lessee) sub-leased (between 1931 and 1937 and renewed between 1965 and 1972) portion of leasehold land to 14 sub-lessees who after constructing some structures or otherwise sold out (between May and December 2008) the land and structures to other persons. The sub-lessee was authorised to transfer the property with prior permission of lessee under the paramount

ownership of the State Government. Though the plot of land mentioned in these deeds belongs to the State Government and was leased to Tata Steel Ltd., the registering authority classified the documents as sale deeds instead of transfer of sub-lease deeds and charged registration fees at the rate of one *per cent*, applicable for sale deeds, instead of four *per cent*, applicable for lease/transfer deeds. This resulted in incorrect execution of sale deeds of Government land besides non-fixing of responsibilities of erring officials/officers.

After this was pointed out, the DSR stated (May 2011) that documents were presented as sale deed for registration and the registering authority has no power to verify the title. The reply was not in consonance with the provisions of the Act and judicial pronouncement as mentioned *ibid*. The nature of documents should have been decided on whole of the contents of the document and not merely on the operative part of the instrument.

We reported the matter to the Department in June 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

## **B. ELECTRICITY DUTY**

### **5.9 Short levy of electricity duty**

Under the provisions of the Bihar Electricity Duty Act, 1948 as adopted by the Government of Jharkhand, the rate of electricity duty for mining purposes in all premises where the total load exceeded 100 British Horse Power is 15 paise per unit of energy sold or consumed. The duty on sale of electrical energy for industrial purposes is leviable at the rate of two paise per unit. It has judicially been held\* that the process of mining comes to an end only when the ore extracted from the mines is washed, screened, dressed and then stacked at the mining site.

\* Chowgule & Co. Vrs Union of India (1981) 47 STC-124 SC

We noticed (November 2009) during test check of assessment records in Katras commercial taxes circle that an assessee sold 3.70 crore units of electrical energy to a coal washery during 2002-03 and 2003-04. As such, the electricity duty was to be levied at the rate of 15 paise per unit as the entire electrical energy was used for mining purposes. The assessing authority (AA) while finalising the assessment for 2002-03 and 2003-04 in September 2006

incorrectly treated it as an industrial process and levied duty at the rate of two paise per unit. This resulted in short levy of electricity duty of ₹ 48.06 lakh.

After we pointed out the matter, the AA raised additional demand of ₹ 48.06 lakh in July 2011. Report on realisation is awaited (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder in September 2011; their reply has not been received (February 2012).

**CHAPTER-VI**

**MINERAL CONCESSION,  
FEES AND ROYALTY**

## EXECUTIVE SUMMARY

<b>Marginal increase in non-tax collection</b>	In 2010-11, the collection of fees and royalty increased by 18.62 <i>per cent</i> over the previous year which was attributed by the Department to better control.
<b>Internal audit not conducted</b>	No information regarding setting up of internal audit wing in the Department was furnished to audit though called for. No audit was either conducted by the Finance Department during this period. This resultantly had its impact in terms of the weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omissions on the part of the District Mining Officers remaining undetected till we conducted our audit.
<b>Very low recovery by the Department of observations pointed out by us in earlier years</b>	During the period 2005-06 to 2009-10 we had pointed out under-assessment of royalty etc., with revenue implication of ₹ 1,210.48 crore in 26,636 cases. Of these, the Department/Government accepted audit observations in 15,419 cases involving ₹ 284.87 crore but recovered only ₹ 104.91 crore. The recovery position as compared to acceptance of objections during 2005-06 to 2007-08 was very low ranging from 13.32 <i>per cent</i> to 19.98 <i>per cent</i> .
<b>Results of audits conducted by us in 2010-11</b>	<p>In 2010-11 we test checked the records of 19 units relating to mineral concession, fees and royalty and found under-assessment of royalty and other irregularities involving ₹ 49.88 crore in 1,156 cases.</p> <p>The Department accepted under-assessment and other deficiencies of ₹ 20.58 crore in two cases pointed out by us during 2010-11.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present illustrative cases with revenue implication of ₹ 24.26 crore selected from observations noticed during our test check of records relating to assessment and collection of mineral concession, fees and royalty in the district mining offices where we found that the provisions of the Acts/ Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available with us, the District Mining Officers were unable to detect them.</p>
<b>Our conclusion</b>	<p><b>The Department needs to improve the internal control system including arranging for internal audit so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future.</b></p> <p><b>It also needs to initiate immediate action to recover the undercharge of royalty, etc., pointed out by us, more so in those cases where it has accepted our contention.</b></p>

## CHAPTER-VI: MINERAL CONCESSION, FEES AND ROYALTY

### 6.1 Tax administration

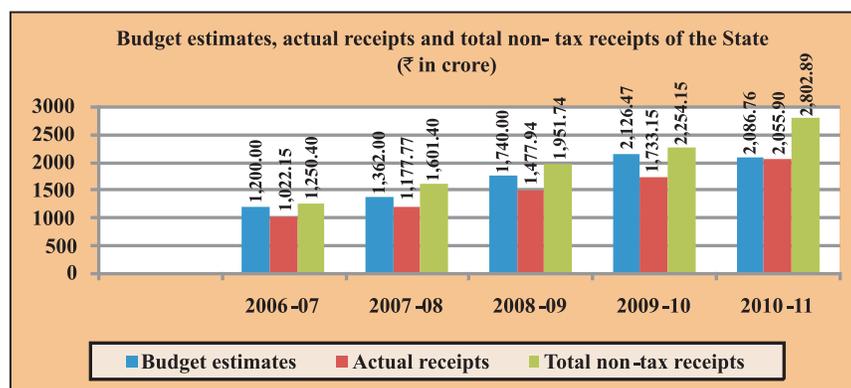
The levy and collection of royalty in the State is governed by the Mines and Mineral (Development and Regulation) Act, 1957, the Mineral Concession Rules, 1960 and the Jharkhand Minor Mineral Concession Rules, 2004. At the Government level, the Secretary, Mines and Geology Department and at the department level, the Director of Mines is responsible for administration of the Acts and Rules. The Director of Mines is assisted by an Additional Director of Mines (ADM) and Deputy Director of Mines (DDM) at the headquarters level. The State is divided into six circles<sup>1</sup>, each under the charge of a DDM. The circles are further divided into 24 district mining offices<sup>2</sup>, each under the charge of a District Mining Officer (DMO)/Assistant Mining Officer (AMO). The DMOs/AMOs are responsible for levy and collection of royalty and other mining dues. They are assisted by Mining Inspectors (MIs) who are authorised to inspect the lease hold areas for production and dispatch of minerals.

### 6.2 Trend of receipts

Actual receipts from royalty and fees against budget estimates during 2006-07 to 2010-11 along with the total non-tax receipts during the same period is exhibited in the following table and chart:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2006-07	1,200.00	1,022.15	(-) 177.85	(-) 15.00	1,250.40	81.75
2007-08	1,362.00	1,177.77	(-) 184.23	(-) 14.00	1,601.40	73.55
2008-09	1,740.00	1,477.94	(-) 262.06	(-) 15.00	1,951.74	75.72
2009-10	2,126.47	1,733.15	(-) 393.32	(-) 18.50	2,254.15	76.89
2010-11	2,086.76	2,055.90 <sup>3</sup>	(-) 30.86	(-) 01.48	2,802.89	73.35



<sup>1</sup> Chaibasa, Daltonganj, Dhanbad, Dumka, Hazaribag and Ranchi.

<sup>2</sup> Bokaro, Chatra, Chaibasa, Daltonganj, Deoghar, Dhanbad, Dumka, Garhwa, Giridih, Godda, Gumla, Hazaribag, Jamshedpur, Jamtara, Khunti, Koderma, Latehar, Lohardaga, Pakur, Ramgarh, Ranchi, Sahebganj, Saraikela and Simdega.

<sup>3</sup> There was discrepancy in figures of actual receipts between figures as per Finance Accounts (₹ 2,055.90 crore) and as per information furnished by the Department (₹ 2,133.59 crore).

Though the receipts during 2010-11 increased by 18.62 per cent as compared to 2009-10, the percentage of receipt *vis-à-vis* total non-tax revenue of the State decreased from 76.89 per cent in 2009-10 to 73.35 per cent in 2010-11.

### 6.3 Working of internal audit wing

No information regarding setting up of internal audit wing in the Department was furnished to us though called for. As per information furnished to audit, no audit was conducted by the Finance Department during 2010-11.

### 6.4 Impact of audit

#### Revenue impact

During the last five years (2005-06 to 2009-10) we pointed out under-assessment of royalty etc., with revenue implication of ₹ 1,210.48 crore in 26,636 cases. Of these, the Department/Government accepted audit observations in 15,419 cases involving ₹ 284.87 crore. As per information furnished by the Department, recovery of ₹ 104.91 crore has been effected during 2005-06 to 2009-10, however, number of cases in which recovery was made has not been furnished. The details are shown in the following table:

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	Percentage of recovery to amount accepted
		No. of cases	Amount	No. of cases	Amount		
2005-06	22	11,844	231.10	2,547	8.86	1.77	19.98
2006-07	15	592	234.42	228	10.34	1.88	18.18
2007-08	14	10,908	407.80	10,114	203.12	27.05	13.32
2008-09	20	3,043	210.51	2,507	51.29	69.06	134.65
2009-10	11	249	126.65	23	11.26	5.15	45.74
<b>Total</b>	<b>82</b>	<b>26,636</b>	<b>1,210.48</b>	<b>15,419</b>	<b>284.87</b>	<b>104.91</b>	

### 6.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 565.21 crore. The year-wise position of arrears of revenue during the period 2006-07 to 2010-11 are depicted below:

(₹ in crore)

Year	Opening balance of arrears	Closing balance of arrears
2006-07	312.73 <sup>4</sup>	229.92
2007-08	229.92	290.72
2008-09	290.72	298.35
2009-10	298.35	285.58
2010-11	285.58	565.21

The Department intimated that arrears as on 31 March 2011 of ₹ 565.21 crore were outstanding, of which ₹ 361.73 crore was certified for recovery as arrears of land revenue. Recovery of ₹ 155.03 crore and ₹ 17 lakh was stayed by various courts and by the Government respectively. Recovery of ₹ 2.94 crore was held up due to rectification/revision of applications while recovery of

<sup>4</sup> Arrears of revenue as furnished by the department was ₹ 295.48 crore, however, actual totaling of the break-up was worked out to ₹ 312.73 crore.

₹ 2.59 crore was held up due to lessees becoming insolvent. An amount of ₹ 5 lakh was likely to be written off. Specific action taken in respect of ₹ 42.70 crore has not been intimated.

Thus, it would be seen from the above that 64 *per cent* of the total amount was pending settlement due to non-settlement of certified cases and 27 *per cent* was pending settlement due to non-finalisation of the court cases. Action is required to be taken to recover the amount of ₹ 42.70 crore.

**We recommend that the Government may consider issuing directions to the Department for speedy settlement of the arrear cases by constant monitoring of court/certified cases and recovering the arrears as arrears of land revenue by invoking the provisions of the Bihar and Orissa Public Demands Recovery Act, 1914.**

## 6.6 Results of audit

Our test check during 2010-11 of the records of 19 units relating to ‘Mineral Concession, Fees and Royalty’ revealed under-assessment of royalty and other irregularities involving ₹ 49.88 crore in 1,156 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1	Non-levy or short levy of royalty and cesses	2	15.25
2	Non-levy of interest	1	2.54
3	Non-initiation of certificate proceedings	138	7.98
4	Non/short levy of royalty/price of mineral due to suppression of dispatch/illegal mining of iron ore	7	4.71
5	Other cases	1,008	19.40
<b>Total</b>		<b>1,156</b>	<b>49.88</b>

During the course of the year, the Department accepted under-assessments and other deficiencies amounting to ₹ 20.58 crore in two cases, pointed out by us during 2010-11.

In this Chapter we present a few illustrative cases having recoverable financial implication of ₹ 24.26 crore which are discussed in the succeeding paragraphs:

## 6.7 Non-observance of the provisions of Acts/Rules

*The Mines and Mineral (Development and Regulation) (MMDR) Act, 1957, the Mineral Concession (MC) Rules, 1960, the Jharkhand Minor Mineral Concession (JMMC) Rules, 2004 and the Jharkhand Mineral Dealers (JMD) Rules, 2007 provide for:*

- (i) *payment of royalty on the minerals removed and consumed from the lease area at the rates prescribed, and within the due dates; and*
- (ii) *payment of price of minerals in addition to royalty for the minerals extracted without valid lease/permit, treating the mining as illegal.*

*The Mines and Geology Department did not observe some of the provisions of the Acts/Rules in the cases mentioned in paragraphs 6.8 to 6.13 for levy and collection of royalty.*

## 6.8 Short levy of royalty

Under the provisions of the MMDR Act, the holder of a mining lease is required to pay royalty in respect of any mineral removed or consumed from leased area at the rate for the time being specified in the Second Schedule in respect of that mineral. By an amendment made in the second schedule of the Act in August 2007, the Central Government prescribed a formula for determination of rates of royalty of different categories of coal.

**6.8.1** We noticed (February 2011) during test check of the demand files in the District Mining Office, Pakur that a mining lease holder dispatched 84.49 lakh metric tonne of coal of different

grades during 2009-10 and paid royalty of ₹ 97.47 crore for the aforesaid dispatch. We calculated<sup>5</sup> the actual royalty payable at ₹ 112.12 crore by using the formula prescribed by the Central Government. Though a similar irregularity for the period 2008-09, was pointed out in an earlier Audit Report<sup>6</sup>, the Mining Officer did not scrutinise the returns to verify the claim of royalty with those notified by the Central Government, resulting in short payment of royalty of ₹ 14.65 crore.

After we pointed out the matter (February 2011), the AMO raised the demand (February 2011) as pointed by us. Report on realisation has not been received (February 2012).

**6.8.2** We noticed (January 2011), during test check of monthly returns of a lessee for 2007-08 and 2008-09 in District Mining Office, Godda, that though the new rate for coal was notified by Coal India Ltd (effective from 13 December 2007), royalty at lower rates<sup>7</sup> for F and G grades coal was paid by the lessee on dispatch of 97.39 lakh metric tonne of

<sup>5</sup> Calculated on the basis of basic pithead price of ROM coal (of a nearby coal mine, Simlong Colliery of Eastern Coal Fields) as notified by Coal India Ltd.

<sup>6</sup> Paragraph number 7.6.2 of Audit Report (Revenue Receipts), Government of Jharkhand for the year ended 31 March 2010.

<sup>7</sup> Upto February 2008 ₹ 87.50 and ₹ 81.11 thereafter ₹ 88.40 and ₹ 81.84 for Grade F and Grade G coal respectively.

coal during 13 December 2007<sup>8</sup> to 31 December 2008 in the returns. We calculated the royalty payable at the revised rates of ₹ 93 and ₹ 85.50 per metric tonne for the aforesaid grades on the basis of the formula prescribed by the Central Government. Thus, the Mining Officers did not scrutinise the returns properly, which resulted in short levy of royalty of ₹ 4.57 crore.

After we pointed out the matter (January 2011), the AMO stated (January 2011) that action would be taken after examination of the case. Further reply has not been received (February 2012).

**6.8.3** We noticed (December 2010) in District Mining Office, Dhanbad while scrutinising the monthly returns of two collieries for the year 2009-10 that the lessees had made payment of royalty of ₹ 48.41 crore on dispatch of 34.43 lakh metric tonne of washery grade IV coal instead of royalty payable of ₹ 49.29 crore worked out on the basis of formula prescribed by the Central Government. This resulted in short levy of royalty of ₹ 87.62 lakh.

After we pointed out the matter, the AMO stated (December 2010) that action would be taken after examination of cases. Further reply has not been received (February 2012).

**6.8.4** We noticed (February 2011) during scrutiny of monthly returns of a lessee for the year 2009-10 in District Mining Office, Lohardaga that though the closing stock of bauxite in the railway siding was 16,000 metric tonne at the end of September 2009, the lessee had shown opening stock as 38,000 metric tonne in the month of October 2009. Thus, turnover of 22,000 metric tonne had escaped payment of royalty in September 2009. Non-verification of the returns by the AMO resulted in short levy of royalty of ₹ 19.58 lakh.

After we pointed out the matter, the AMO stated (February 2011) that the matter will be examined. Further reply has not been received (February 2012).

The cases were reported to the Government in May 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 6.9 Short levy of royalty due to downgrading of coal

The MMDR Act provides for payment of royalty by a lessee on the quantity of mineral removed or consumed from the leased area at the rate prescribed according to the grade of coal. Under the provisions of the Colliery Control Rules 2004, the owner of a colliery shall declare its grade and pay royalty at the rate specified.

We noticed (December 2010) during test check of returns submitted by two collieries under Bharat Coking Coal Ltd. (BCCL) in District Mining Office, Dhanbad that 2.49 lakh metric tonne of coal was removed and dispatched during 2009-10. Though the dispatched coal was notified by BCCL

(owner) as Grade 'C' steam and direct feed coal, it was incorrectly shown as 'C' Run-Of-Mine (ROM) and steel Grade-II in the monthly returns of the collieries and royalty of ₹ 7.49 crore was paid accordingly. We calculated the payable royalty at

<sup>8</sup> For 13 to 31 December 2007, proportionate quantity of coal of total dispatch for the month of December 2007 had been taken.

₹ 8.10 crore as per grades declared by the owner of the collieries. Non-verification of grades as claimed by the collieries in their returns with those notified by BCCL resulted in short levy of royalty of ₹ 60.73 lakh.

After we pointed out the matter, the AMO stated (December 2010) that the matter would be examined. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

#### **6.10 Absence of inter-departmental cross-verification of data resulted in short-levy of royalty**

Under the provisions of the MMDR Act, the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed by him from the lease area at the rate for the time being specified in the Second Schedule in respect of that mineral. Further, the Government has not specified any system for cross-verification of returns filed by the lessees with the data/information of other departments/undertakings to check short payment or evasion of royalty.

We collected data relating to dispatch of iron ore by two mining lease holders from the Commercial taxes circle (CTC), Chaibasa and Sr. Divisional Commercial Manager (DCM), Chakradharpur, SE Railway and cross verified the same with the returns of the lessees in the District Mining Office, Chaibasa.

We noticed (December 2010) that the two lessees had reflected dispatch of iron ore of 64.71 lakh metric tonne in their monthly returns during 2006-07 to 2008-09 and paid royalty accordingly. However, the records of CTC, Chaibasa and DCM, Chakradharpur indicated that the lessees had actually dispatched iron ore of 76.89 lakh metric tonne during the period. Thus, there was a suppression of 12.18 lakh metric tonne of iron ore. This resulted in under assessment of payable royalty of ₹ 2.27 crore by the lessees.

After we pointed out the matter, the DMO stated (December 2010) that the matter would be examined. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by reminder issued in September 2011; their reply has not been received (February 2012).

**The Government may consider establishing a mechanism for co-ordination with other departments/undertakings for cross-verification of information/data with the returns of the lessees to ensure correct realisation of royalty.**

### 6.11 Non-levy of penalty for non-submission of monthly returns

Under the provisions of the JMMC Rules, every lessee/permit holder is required to submit a return in the prescribed form for extraction and removal of minor minerals by the fifteenth day of the following month. In case a lessee or a permit holder fails to furnish the required return within the prescribed period, he shall be liable to pay as penalty a sum of ₹ 20 for every day after the expiry of the prescribed date subject to a maximum of ₹ 2,500.

We noticed (February 2011) during test check of the raising and dispatch registers of the District Mining Office, Pakur that 19 lessees did not submit monthly returns relating to the period between April 2005 and March 2010. However, the Department, while

raising the demand, did not verify the raising and dispatch register to ensure submission of returns and raised demand for dead rent only, presuming the dispatch as 'nil'. Penalty for non-submission of returns, though leviable, was not levied in any of the cases. This resulted in non-levy of penalty of ₹ 14.48 lakh.

After we pointed out the matter, the AMO stated (February 2011) that the matter would be examined. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by reminder issued in September 2011; their reply has not been received (February 2012).

### 6.12 Non-raising of demand for price of illegally mined iron ore

Under the provisions of the MMDR Act, whenever any person raises, without any lawful authority, any mineral from any land, the State Government may recover from such person the mineral so raised or where such mineral has already been disposed of, the price thereof, and may also recover from such person, rent, royalty or tax, as the case may be, for the period during which the land has been occupied by such person without any lawful authority.

We noticed (December 2010) during test check of the illegal mining register of the DMO, Chaibasa for the period 2009-10 that 6,900 metric tonnes of iron ore was stored illegally in the premises of five persons in August 2009. Notices under the

JMD Rules, 2007, seeking reasons for illegal storage and violation of the rules, were issued to the defaulters in August 2009. Replies to the notices were not on record (December 2010). Even after a lapse of more than 15 months, from the date of issue of the notices, the Department did not initiate action to seize the illegally procured minerals. Taking the price of the mineral (iron ore fines) at ₹ 494 per metric tonne (IBM price for the month of August 2009), the price of mineral to be recovered from these defaulting persons stood at ₹ 34.64 lakh including royalty of ₹ 55,200.

After we pointed out the matter, the DMO stated (December 2010) that the matter would be examined. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

### 6.13 Non-levy of penalty for illegal mining by works contractors

Under the provisions of the JMMC Rules 2004, civil works contractors are required to purchase minor minerals only from the authorised lessees/ permit holders and authorised dealers. It further provides for submission of affidavits in form 'O' and particulars in form 'P' by the works contractors to the Works Department indicating therein details of sources of purchase of minerals, price paid and quantity procured along with the bills. The Works Department, in turn, is required to forward the photocopies of form 'O' and 'P' to the Mining Department for verification of the details of minerals procured and consumed. In case of non-compliance, penalty not exceeding the amount of royalty is leviable by the collector.

We noticed (March 2011) in the District Mining Office, Gumla that during 2009-10, 12 works divisions, Panchayat and Block Development Officers deducted and deposited royalty of ₹ 59.59 lakh for the minerals consumed in the works contracts without forwarding the copies of form 'O' and 'P' to the Mining office for verification of the details of minerals procured and consumed. The Department

did not take any action to levy the penalty of ₹ 59.59 lakh.

After we pointed out the cases, the DMO, Gumla stated (March 2011) that reminder would be sent to the concerned Works Department for detailed report of deducted amount of royalty. Further reply has not been received (February 2012).

The matter was reported to the Government in May 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

**CHAPTER-VII**  
**OTHER NON-TAX RECEIPTS**

## EXECUTIVE SUMMARY

<b>Marginal increase in tax collection</b>	<p>In 2010-11, the collection of forest receipts increased by 33.33 <i>per cent</i> over the previous year which was attributed by the Department to recovery of dues and other receipts from seized forest produce and imposition of penalties.</p>
<b>Internal audit not conducted</b>	<p>The internal audit wing in the Department has not been set up and no internal audit was conducted by the Finance Department during 2010-11.</p>
<b>Results of audits conducted by us in 2010-11</b>	<p>In 2010-11, we test checked the records of 17 units relating to forest receipts and 10 units of irrigation receipts solely for the purpose of review. We found cases of non/short raising of demand/non-disposal of forest produce/non-achievement of target of irrigation and other deficiencies of ₹ 601.27 crore in 826 cases.</p> <p>The Department accepted non/short raising of demand/non-disposal of forest produce and other deficiencies of ₹ 524.03 crore in 619 cases pointed out by us during 2010-11.</p>
<b>What we have highlighted in this Chapter</b>	<p>In this Chapter we present a review on “Receipts from Major and Medium Irrigation Projects” conducted during test check of records where we found cases of non-achievement of target in irrigation, non-preparation of <i>Sudkar</i>, non-raising of demand, usage of water for industrial purposes without any agreement, etc., having financial implication of ₹ 519.15 crore. We have also highlighted illustrative cases of ₹ 17.44 lakh selected from observations noticed during our test check of records relating to forest receipts, where we found that the provisions of the Acts/ Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the departments have not taken corrective measures. We are also concerned that though these omissions were apparent from the records which were made available to us, the concerned authorities were unable to detect these mistakes.</p>
<b>Our conclusion</b>	<p><b>The Department needs to improve the internal control system including setting up an internal audit wing so that weaknesses in the system are addressed and omissions of the nature detected by us are avoided in future.</b></p> <p><b>It also needs to initiate immediate action to recover the non-realisation, undercharge of tax, etc pointed out by us, more so in those cases where it has accepted our contention.</b></p>

## CHAPTER-VII: OTHER NON-TAX RECEIPTS

### FOREST RECEIPTS

#### 7.1 Tax administration

Forest receipts, a source of non-tax receipts, are largely derived from sale proceeds of major and minor forest produce, royalty, compensation, fee, fines etc. imposed under the Indian Forest (IF) Act, 1927 and other Acts and Rules made thereunder. After creation of the State of Jharkhand, the existing Act, Rules and executive instructions of the State of Bihar were being followed by the State of Jharkhand. The Secretary is the head of the Forest and Environment Department at the Government level in the State. There are three Principal Chief Conservators of Forest (PCCF) who are technical advisors to the State Government and are assisted by three Additional Principal Chief Conservators of Forests, Chief Conservators of Forest (CCsF), Regional Chief Conservators of Forest and Conservators of Forest. Divisional Forest Officers are in-charge of Forest Division. A forest division is sub-divided into Ranges which are headed by Range Forest Officers. A Range is divided into Beats which are headed by the Foresters and a Beat is further divided into Sub-Beats under Forest Guards.

#### 7.2 Trend of receipts

Actual receipts from 'Forest Receipts' against budget estimates (BEs) during the period from 2006-07 to 2010-11 along with the total non-tax receipts during the same period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates (BEs)	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of actual receipts to total non-tax receipts of the State
2006-07	25.00	3.68	(-) 21.32	(-) 85	1,250.40	0.29
2007-08	28.38	4.06	(-) 24.32	(-) 86	1,601.40	0.25
2008-09	50.00	7.20	(-) 42.80	(-) 86	1,951.74	0.37
2009-10	60.00	3.57	(-) 56.43	(-) 94	2,254.15	0.16
2010-11	11.79	4.76	(-) 7.03	(-) 60	2,802.89	0.17

During 2006-07 to 2010-11, the Department could not achieve the BEs in any of the years. The shortfall compared to the budget estimates ranged between 60 and 94 per cent. The reasons for variation during 2010-11 was attributed by the Department to non-implementation of *Sawai Ghas Yojana* (₹ 5.41 crore out of ₹ 11.79 crore) which was part of the budget estimates. This indicated poor planning by the Department and shows that the BEs were not prepared on realistic basis.

**We recommend that the Government may issue suitable instructions to the Department for preparing the BEs on a realistic and scientific basis to ensure that these are close to the actuals.**

### 7.3 Working of internal audit wing

The Department informed us that neither was an Internal Audit Wing operational in the Department nor was any audit conducted by the Finance Department during 2010-11. Information for audit conducted in the previous years was not furnished.

**The Government may consider setting up an internal audit wing so as to ensure effective implementation of the Acts/Rules for prompt and correct realisation of revenues.**

### 7.4 Analysis of arrears of revenue

Arrears of revenue have not been furnished by the Department though called for (September 2011).

### 7.5 Results of audit

In 2010-11, we test checked the records of 17 units relating to forest receipts. We also checked 10 units of irrigation receipts solely for the purpose of the review on Irrigation receipts. We found cases of non-disposal of forest produce, non/short levy of water rates and other irregularities involving ₹ 601.27 crore in 826 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
<b>Water Rates</b>			
1	Receipts from Major and Medium Irrigation Projects (A Review)	1	519.15
<b>Total</b>		<b>1</b>	<b>519.15</b>
<b>Forest Receipts</b>			
1	Loss of revenue due to departmental lapses	64	1.68
2	Short raising of demand	11	67.09
3	Loss of revenue due to delay in initiation of certificate cases	68	0.20
4	Non-disposal of forest produce	236	1.82
5	Non-eviction of encroached forest land	135	1.87
6	Other cases	311	9.46
<b>Total</b>		<b>825</b>	<b>82.12</b>
<b>Grand Total</b>		<b>826</b>	<b>601.27</b>

During the course of the year, the Department accepted audit observations of ₹ 524.03 crore in 619 cases pointed out by us during 2010-11.

In this Chapter we present a review on “Receipts from Major and Medium Irrigation Projects” along with a few illustrative cases relating to forest receipts having recoverable financial implication of ₹ 125 crore and ₹ 394.32 crore was avoidable notional loss to the Government due to non-observance of the provisions of Acts/Rules, which are discussed in the succeeding paragraphs:

## A. WATER RATES

### 7.6 Receipts from Major and Medium Irrigation Projects

#### Highlights

- Non-achievement of targets of irrigation resulted in non-irrigation of 3.59 lakh hectares and 8,943 hectares of *Kharif* and *Rabi* crops respectively during 2005-10 and loss of revenue amounting to ₹ 6.34 crore.  
(Paragraph 7.6.8)
- Though irrigation was provided, *Sudkar* was not prepared in respect of 1.54 lakh hectares of *Kharif* and 37,142 hectares of *Rabi* crops during 2005-10 resulting in non-realisation of revenue of ₹ 3.21 crore.  
(Paragraph 7.6.9)
- The establishment expenditure on collection of per rupee of water rates for irrigation ranged between ₹ 9.13 to ₹ 35.31 during the period 2005-10.  
(Paragraph 7.6.10)
- Due to poor realisation of demand, the Government could not realise the amount of ₹ 384.77 crore from the users. Moreover, no certificate case under Bihar & Orissa Public Demand Recovery Act, 1914 was filed except in the case of M/s South Eastern Railway, Hatia, Ranchi of ₹ 1.01 crore.  
(Paragraph 7.6.11.1)
- User agencies were drawing water for commercial and domestic purposes either without agreement or in excess of the agreed volume of water for which no demand was raised by the divisions resulted in non/short raising of demand of ₹ 124.84 crore.  
(Paragraph 7.6.14)

#### 7.6.1 Introduction

The geographic area of the State of Jharkhand is 80 lakh hectares of which 30 lakh hectares (37 *per cent*) is identified as agricultural land. By the end of 2009-10, the Water Resources Department (WRD), Government of Jharkhand had created irrigational capacity of two lakh hectares and five lakh hectares through construction of major/medium and minor<sup>1</sup> irrigational projects respectively. This caters to the irrigation requirements of only 25 *per cent* of the total agricultural land. Thus, the rest 23 lakh hectares of land was solely dependent upon seasonal and erratic rainfall. The draft Water Policy, prepared in 2007, is yet to be approved (May 2011).

The WRD is responsible for estimation of water availability from all sources, enhancement of irrigational command area, preservation and development of underground water resources and its utilisation for drinking water, irrigation and commercial requirements. Besides assessment, levy and collection of water rate, the WRD is also responsible for planning and implementation of irrigation projects and development, construction and maintenance of infrastructure like dams, reservoirs, canals, channels etc.

<sup>1</sup> Includes check dams, lift irrigation etc.

### 7.6.2 Organisational set up

The Principal Secretary, WRD, Government of Jharkhand, is in overall charge of the Department. He is assisted by the Special Secretary/Joint Secretary (Directorate), the Joint Secretary (Management), the Engineer-in-Chief (Major and Medium Irrigation), the Engineer-in-Chief (Minor Irrigation) and the Superintending Engineer (Project and Planning ) at Headquarter.

The only Revenue Division (RD), Ranchi, headed by the Deputy Collector (Revenue), is responsible for realisation of irrigation receipts through eight circle officers<sup>2</sup> stationed at various places in the State. He reports to the Principal Secretary through the Joint/Special Secretary. Besides, there are 18 Waterways/Irrigation Divisions<sup>3</sup>, headed by the Executive Engineers (EEs), responsible for the survey of irrigated land, preparation of demand (*Khatiyani*) and its submission to the Deputy Collector for realisation of the demand. The revenue receipts, for supply of water to industrial/commercial usage, are assessed, levied and collected by the EEs of the concerned Waterways/Irrigation Divisions.

### 7.6.3 Audit objectives

The main objectives of the review were to ascertain whether:

- the system prescribed for assessment, levy and collection of water rates in respect of the major and medium irrigation projects was adequate;
- water rates for consumption of water by the commercial entities viz. industries, power plants and Drinking Water & Sanitation (DW&S) Department etc., was properly assessed, collected and deposited into the treasury; and
- the internal control mechanism in the Department was adequate and effective to check the leakage of revenue.

### 7.6.4 Scope of audit

The review on “Receipts from Major and Medium Irrigation Projects” for the period 2005-06 to 2009-10 was conducted between January and May 2011. The findings are suitably incorporated in the subsequent paragraphs.

### 7.6.5 Audit criteria and methodology

The main audit criteria used in the review were the Bihar Irrigation (BI) Act 1997, Bengal Irrigation (BI) Act, 1876, Bihar Public Irrigation Works Act, 1939, Bihar and Orrisa Public Demand Recovery (BOPDR) Act, 1914, Sakri Canals Irrigation Rules, 1952 and Bihar Lift Irrigation Rules, 1978, as adopted by the Government of Jharkhand. Besides, relevant executive orders and notifications issued from time to time by the competent authorities were also taken into consideration.

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<sup>2</sup> Chaibasa, Daltonganj, Gharwa, Godda, Hazaribag, Lohardaga, Rengalia (Dumka) and Tamar.  
<sup>3</sup> Barhi, Bundu, Chaibasa, Chandil, Chakardharpur, Dumka, Deoghar, Garhwa, Godda, Gumla, Hazaribag, Ichagarh Galudih, Khunti, Medininagar, Ranchi, Simdega, Sikatia and Tenughat.

Out of 18 Waterways Divisions (WWDs)/Irrigation Divisions (IDs), 10 Divisions<sup>4</sup> were selected, on the basis of risk analysis of auditable units depending on their revenue resources, for detailed scrutiny besides the Headquarters office of WRD and the office of the Deputy Collector (RD). On the basis of the scrutiny of the documents and interaction with concerned officials, audit observations were issued and the responses were called for. The replies of the concerned officials of the WRD were suitably incorporated in the report, wherever received.

### 7.6.6 Acknowledgement

We acknowledge the co-operation of the WRD in providing necessary information and records to audit. We held an entry conference in March 2011 with the Principal Secretary and Engineer-in-Chief of the Department, in which the audit objectives, criteria and scope were discussed. The exit conference was held on 14 October 2011 with Special Secretary, Engineer-in-Chief of Water Resources Department and Deputy Collector (RD), Government of Jharkhand in which the findings of review were discussed. The views of the Government/Department have been incorporated in the relevant paragraphs.

### Audit findings

#### 7.6.7 Trend of revenue

According to the provisions of the Bihar Budget Procedure, as adopted by the Government of Jharkhand, the estimates of revenue receipts should show the amount expected to be realised in the financial year. The arrear and current demand should be shown separately and reasons may be given, if full realisation could not be effected. In case of fluctuating revenue, the estimates should be based upon a comparison of the last three years receipts.

A comparison of the demand in respect of receipt of water rates for irrigation and industrial supply from the major and medium irrigation projects for the period 2005-06 to 2009-10 *vis-a-vis* budget estimates (BEs) and actual receipts (ARs) is shown in the

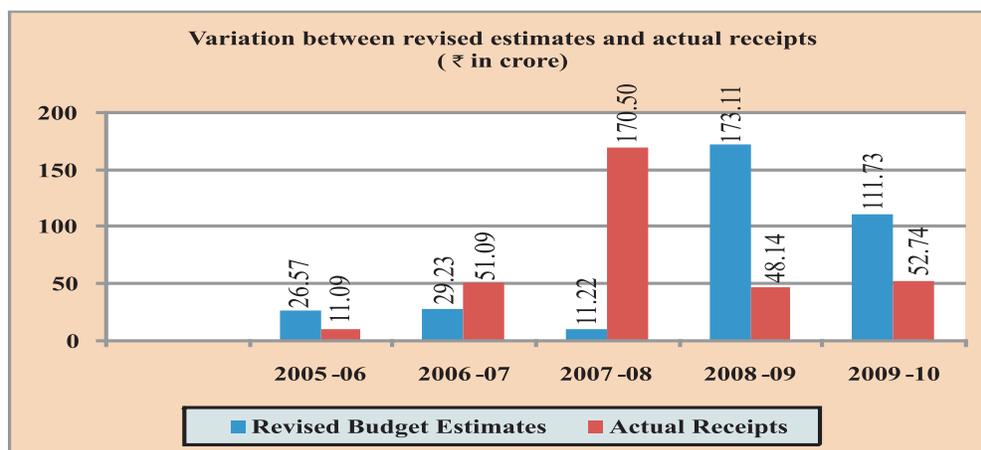
following table and chart:

(₹ in crore)

Year	Revised Budget Estimates (BEs)	Actual Receipts (ARs)	(-) Shortfall (+) Surplus (3-2)	Percentage variation between revised BE and actual
1	2	3	4	5
2005-06	26.57	11.09	(-) 15.48	(-) 58
2006-07	29.23	51.09	(+) 21.86	(+) 75
2007-08	11.22	170.50	(+) 159.28	(+) 1,420
2008-09	173.11	48.14	(-) 124.97	(-) 72
2009-10	111.73	52.74	(-) 58.99	(-) 53

(Source: Budget documents and Finance Accounts of the Government of Jharkhand)

<sup>4</sup> Chaibasa, Chandil, Deoghar, Dumka, Gumla, Hazaribag, Ichagarh Galudih, Medininagar, Ranchi and Tenughat.



The above table showed that the variation between BEs and actuals ranged between (-) 72 per cent and 1,420 per cent. One of the reasons for this was the preparation of unrealistic budget estimates as the same was not drawn up on the basis of previous year's receipts.

The Government in its reply (October 2011) stated that the huge increase in actual receipt for 2007-08 of ₹ 170.50 crore is due to receipt of share from the Orissa Government on construction of Swarnarekha Project and arrears received from M/s Tata Steel Limited. The BEs for receipts was traditionally prepared by the Finance Department without taking inputs from WRD. However, it was assured that appropriate steps would be taken so that the BEs could be prepared on a scientific basis and accordingly inputs would be provided to the Finance Department.

## System Deficiencies

### 7.6.8 Shortfall in achievement of target of irrigation

According to the information furnished by the Planning & Monitoring Wing, WRD, Ranchi, the table below indicates the non-achievement of target of irrigation which resulted in non-irrigation of 3.59 lakh hectares and 8,943 hectares of *Kharif* and *Rabi* crops respectively during the period 2005-06 to 2009-10 and the Government suffered a loss of revenue amounting to ₹ 6.34 crore<sup>5</sup>.

Table showing year-wise target and achievement of irrigation

(Area in hectare)

Year	Available Irrigation Potential	Kharif Crop				Rabi Crop			Percentage
		Target	Achievement	Shortfall (3-4)	Percentage	Target	Achievement	Short fall/ Excess (7-8)	
1	2	3	4	5	6	7	8	9	10
2005-06	2,34,140	1,52,302	78,388	73,914	49	N/A	4,316	-	-
2006-07	2,34,140	1,60,784	98,580	62,204	39	15,449	13,321	2,128	14
2007-08	2,34,140	1,56,205	93,948	62,257	40	1,470	9,526	-	-
2008-09	2,34,140	1,54,720	88,561	66,159	43	10,148	9,169	979	10
2009-10	2,34,140	1,58,155	63,569	94,586	60	15,356	9,520	5,836	38
<b>Total</b>		<b>7,82,166</b>	<b>4,23,046</b>	<b>3,59,120</b>		<b>42,423</b>	<b>45,852</b>	<b>8,943</b>	

(Source: Planning & Monitoring, Water Resources Department, Ranchi.)

<sup>5</sup> *Kharif*: 3,59,120 hectare = 8,87,026.40 acre @ ₹ 70/acre = ₹ 6.21 crore.

*Rabi*: 8,943 hectare = 22,089.21 acre @ ₹ 60/acre = ₹ 13 lakh.

The Government in its reply stated (October 2011) that targets were fixed on the basis of availability of water. Since most of the canals/reservoirs were very old, it needs special repair and maintenance. It was also stated that efforts were being made to renovate such canals to achieve the irrigation target.

### 7.6.9 Shortfall in preparation of *Sudkar/Khatiyani*

Under the Bengal Irrigation Act and rules made thereunder, water rates are recoverable from the beneficiaries as per prescribed rate of ₹ 70 and ₹ 60 per acre for *Kharif* and *Rabi* crops respectively. Preparation of the statement of land irrigated (*Sudkar*), cultivator-wise measurement (*Khesra*) and demand statement (*Khatiyani*) are to be prepared and completed by 30 November for *Kharif* and 30 April for *Rabi* crops, each year by Waterways and Irrigation Divisions for recovery of water rates from the beneficiaries and sent to the Deputy Collector, RD for recovery of the water rates.

During the test check of the records/statements furnished by the Planning and Monitoring Wing, WRD, Ranchi, it was noticed that '*Sudkar*' was not prepared by Waterways and Irrigation divisions in respect of the entire irrigated area during the period of review as detailed in the following table:

Table showing year-wise details of irrigation '*Sudkar*' prepared  
(Area in hectare)

Year	Irrigation achieved		<i>Sudkar</i> prepared		<i>Sudkar</i> not prepared			
	<i>Kharif</i>	<i>Rabi</i>	<i>Kharif</i>	<i>Rabi</i>	<i>Kharif</i>	Percentage	<i>Rabi</i>	Percentage
2005-06	78,388	4,316	59,656	1,167	18,732	24	3,149	73
2006-07	98,580	13,321	79,800	8,158	18,779	19	5,163	39
2007-08	93,948	9,526	74,871	1,670	19,077	20	7,856	82
2008-09	88,561	9,169	44,995	619	43,566	49	8,550	93
2009-10	79,870	12,424	26,463	0.00	53,408	67	12,424	100
<b>Total</b>	<b>4,39,347</b>	<b>48,756</b>	<b>2,85,785</b>	<b>11,614</b>	<b>1,53,562</b>	<b>36</b>	<b>37,142</b>	<b>77</b>

It was noticed that though land had been irrigated, '*Sudkar*' was not prepared in respect of 1.54 lakh hectares (36 per cent) of *Kharif* and 37,142 hectares (77 per cent) of *Rabi* crops during the year 2005-06 to 2009-10 as a result of which the *Khatiyani* for that period could not be prepared and water rate could not be realised. This resulted in short realisation of revenue amounting to ₹ 3.21 crore<sup>6</sup>.

The Government in its reply stated (October 2011) that the reason for not preparing *Sudkar* was due to huge shortage of staff. However, it was assured that preparation of *Sudkar* for the entire irrigation would be achieved by appointing *Amin*/Patrol *Moharir* on contractual/daily wages basis.

<sup>6</sup> *Kharif*: 1,53,562 hectare = 3,79,298.14 acre @ ₹ 70/acre = ₹ 2.66 crore.

*Rabi*: 37,142 hectare = 91,740.74 acre @ ₹ 60/acre = ₹ 55.04 lakh.

### 7.6.10 Very high cost of collection of irrigation water charges

The sanctioned strength *vis-à-vis* men in position of the office of the Dy. Collector Revenue Division, Ranchi including revenue collection circle offices, is given in the following table:

Name of the Post	Sanctioned Strength	Men-in- Position				
		2005-06	2006-07	2007-08	2008-09	2009-10
Dy. Collector/ Assistant Revenue Officer	2	0	0	0	0	0
Circle Officer (Irrigation)	8	4	4	2	2	2
<i>Muharir</i>	32	12	10	8	7	3
<i>Amin</i>	16	3	3	3	2	1
<i>Sangrahak</i>	248	20	19	18	14	9
Others (Clerk, Driver, Peon etc.)	80	55	52	42	41	36
<b>Total</b>	<b>386</b>	<b>94</b>	<b>88</b>	<b>73</b>	<b>66</b>	<b>51</b>

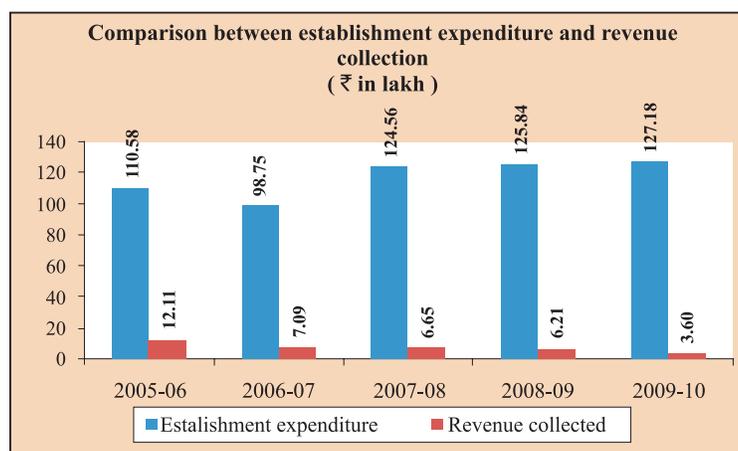
From the table it is evident that against the sanctioned strength of 386, actual men in position ranged between 94 and 51 during 2005-06 to 2009-10. The strength of *Sangrahaks*<sup>7</sup>, who played a vital role in collection of revenue, was reduced from 20 in 2005-06 to nine in 2009-10.

Despite the decreasing trend of manpower employed, the cost of collection per rupee of revenue earned (water rates) for irrigation increased from ₹ 9.13 in 2005-06 to ₹ 35.31 in 2009-10 as shown in the following table and chart:

Table showing year-wise establishment expenditure of the Revenue Division, Ranchi and revenue collection circle office *vis-a-vis* revenue collection:

(₹ in lakh)

Year	Establishment expenditure <sup>8</sup>	Revenue collected	Expenditure on collection of one rupee as revenue
2005-06	110.58	12.11	9.13
2006-07	98.75	7.09	13.92
2007-08	124.56	6.65	18.71
2008-09	125.84	6.21	20.25
2009-10	127.18	3.60	35.31
<b>Total</b>	<b>586.91</b>	<b>35.66</b>	



<sup>7</sup> Official responsible to collect the water rates from cultivators.

<sup>8</sup> Pay and allowances, TA, LTC, office expenditure etc.

The above was not inclusive of expenditure incurred on construction, repair and maintenance of the reservoir, dam, canal etc.

The Government in its reply stated (October 2011) that due to lack of staff, revenue collection decreased. Further, due to the Sixth Pay Commission, the pay and allowances of the employees had increased resulting in increase in the collection charges. However, it was assured that necessary steps would be taken to minimise the cost of collection of revenue.

### 7.6.11 Revenue recovery mechanism

Under the Bihar Financial Rules (BFR), it is the duty of the controlling officer to ensure that the Government dues are correctly and promptly assessed, collected and remitted into the treasury.

The BOPDR Act, 1914 provides that the amount due to the Government is required to be paid within the prescribed period. In case of default, the recovery is to be made as arrears of land revenue and accordingly the dues

remaining unpaid and declared as arrear must be recovered by filing certificate case with the approval of the Requiring Officer<sup>9</sup> (RO) to the Certificate Officer<sup>10</sup> (CO). As per the instructions of the Board of Revenue under the BOPDR Act, the RO and the CO are jointly responsible for the speedy disposal of the certificate cases.

#### 7.6.11.1 Shortfall in collection of revenue

##### (A) Irrigation revenue

We noticed during test check of the records of the RD, Ranchi that though the demands including outstanding cumulative dues/arrears stood between ₹ 5.86 crore and ₹ 7.12 crore during 2005-06 to 2009-10, the annual target of revenue collection was fixed at ₹ one crore only invariably for each year. It was further noticed that the actual annual collection during the same period was exceptionally low ranging between ₹ 3.60 lakh and ₹ 12.11 lakh only and there was an outstanding demand of ₹ 7.09 crore up to end of the year 2009-10 as shown in the table and graph below:

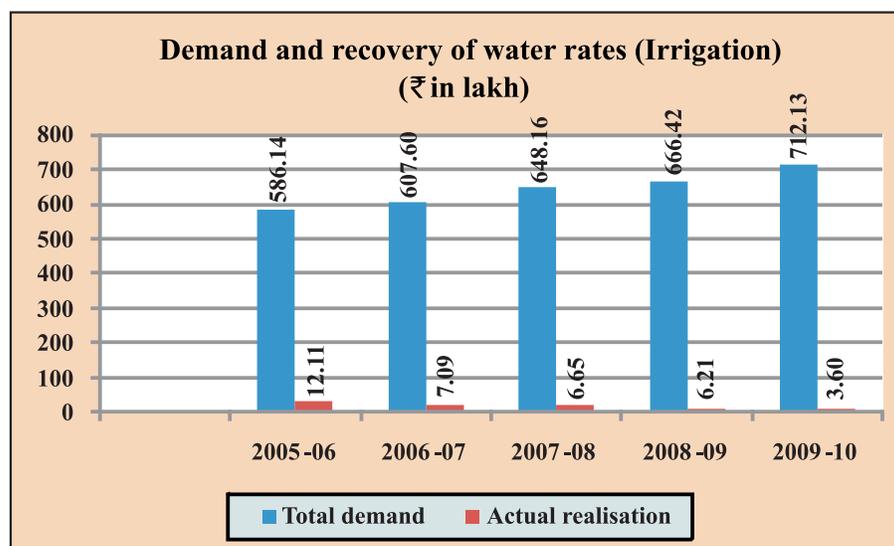
Table showing year-wise detail of demand and recovery of water charges for irrigation purpose.

(₹ in lakh)

Period	Previous cumulative outstanding	Current demand	Total demand (2+3)	Actual realisation	Outstanding demand (4-5)	Percentage realisation (5/4*100)
1	2	3	4	5	6	7
2005-06	578.03	8.12	586.14	12.11	574.04	2.06
2006-07	574.04	33.56	607.60	7.09	600.51	1.16
2007-08	600.51	47.66	648.16	6.65	641.51	1.02
2008-09	641.51	24.91	666.42	6.21	660.20	0.93
2009-10	660.21	51.93	712.13	3.60	708.53	0.50

<sup>9</sup> Requiring Officer: A Collector, a Sub-Divisional or any officer appointed by Collector with the permission of Commissioner.

<sup>10</sup> Certificate Officer: An officer primarily responsible for systematic application for certificate cases.



The above table showed that the actual realisation of the revenue to the total outstanding and current demand was in the range of 0.5 per cent to 2.06 per cent only.

The Government in its reply stated (October 2011) that due to shortage of staff the revenue collection was very low. However, efforts were being made to appoint *Amin/Patrol Moharirs* on contractual/daily wages basis.

- The statement of collections and remittances of water rates furnished by the Dy. Collector, RD, Ranchi and Circle Officer, Tamar were verified with the treasury schedule. The results of the verification are as under:

(Amount in ₹)

Period	Collection as per statement furnished	Remittance as per remittance register	Statement of remittance as furnished by CO	Remittance as per treasury schedule
1	2	3	4	5
2005-06	3,32,159	1,34,833	3,30,163	3,11,537
2006-07	1,18,000	5,33,271	1,20,000	1,10,834
2007-08	51,574	89,352	51,690	64,940
2008-09	37,550	51,690	37,550	44,042
2009-10	20,032	41,655	20,032	20,032

From the above it could be seen that the figures of collections and remittances in the treasury differ in all the stages, which needs further investigation.

The Dy. Collector, RD, instructed the concerned CO to investigate the matter regarding difference between the treasury figures and the Circle Office figures.

**(B) Non-irrigation revenue**

According to the provisions of the Bihar Irrigation Act, 1997 and executive order issued vide letter no.1996 dated 19.06.2007, agreements have to be executed with the user agencies for drawing water and water rates shall be levied at the prescribed rates.

The BOPDR Act provides that certificate proceedings should be initiated for realisation of arrears for which the requiring officer sends a proposal to the certificate officer. Further under the Limitation Act, 1963, certificate cases for recovery of arrear must be initiated within 30 years from the date of raising of demand. Thereafter the recovery will be barred by limitation of time.

We scrutinised the statement and records pertaining to arrears furnished by six Waterways and Irrigation (W&I) divisions<sup>11</sup> for 52 users and noticed that the arrears of water rates against water supplied for non-irrigation purposes viz., commercial, supply of drinking water up to 2009-10 were ₹ 377.68 crore. This included sub-judice amount of ₹ 55.94 crore of M/s Tata Steel, Jamshedpur and certificate case filed against M/s South Eastern Railway, Hatia, Ranchi for ₹ 1.01 crore. The division-wise arrears of water rates are given below:

**Table showing division-wise detail of outstanding arrear of water charges**

(₹ in crore)

Sl. No.	Name of the Division	Number of user agencies	Period	Amount of arrear
1	Waterways Division, Ranchi	6	April 1970 to March 2010	83.75
2	Waterways Division, Chaibasa.	1	February 1965 to March 2010	8.14
3	Swarnarekha Canal Division II, Chandil	5	July 1998 to March 2010	104.59
4	Tenughat Dam Division, Bokaro	4	November 1982 to March 2010	129.42
5	Kharkai Canal Division, Adityapur, Jamshedpur	5	December 2007 to March 2010	22.99
6	Waterways Division, Hazaribag	31	April 1956 to March 2009	28.79
	<b>Total</b>	<b>52</b>		<b>377.68</b>

Out of the 52 users, the top ten major defaulters are mentioned below:

(₹ in crore)

Sl. No.	Name of the user agencies (M/s)	Name of the Office/ Division	Period	Amount of arrear
1	TTPS, Lalpania	Tenughat Dam Division, Bokaro	08/1996 to 08/1998	126.04
2	PHED, Ranchi	Waterways Division, Ranchi	77-78 to 01-02	76.61
3	Tata Steel Ltd., Jamshedpur	Swarnarekha Canal Division II, Chandil	6.07.98 to 03/10	91.63

<sup>11</sup> Chaibasa, Chandil, Hazaribag, Jamshedpur, Ranchi and Tenughat.

(₹ in crore)

Sl. No.	Name of the user agencies (M/s)	Name of the Office/ Division	Period	Amount of arrear
4	South Eastern Railways, Chakradharpur	Kharkai Canal Division, Adityapur, Jamshedpur	Up to March 2010	17.34
5	Tata Steel , Noamundi Iron Mines, Chaibasa	Waterways Division, Chaibasa	02/65 to 03/10	8.14
6	Power House, West Bokaro, Ghato	Waterways Division, Hazaribag	1978-79 to 03/09	4.05
7	R. K. Budhia, Ranchi	Waterways Division, Ranchi	01.09.70 to 31.03.02	3.36
8	Hindalco Industries Ltd, Ranchi	Waterways Division, Ranchi	01.04.85 to 31.03.09	1.58
9	Uranium Corporation of India Ltd.,Jamshedpur	Kharkai Canal Division, Adityapur, Jamshedpur	2007-08 to 2009-10	1.55
10	Rajrappa Colliery	Waterways Division, Hazaribag	1987-88 to 03/09	1.42

By analysing the age-wise pendency of arrears of ₹ 320.73 crore (excluding cases pending in appeal court and under the PDR Act of ₹ 56.95 crore), it was found that out of 52 user agencies, 22 user agencies have pendency of arrears of ₹ 19.32 crore for more than 30 years. The details can be seen in the following table:

Arrear of water rates for non-irrigation				
Sl. No	Age-wise (arrear in years)	No. of the user agency out of the total 52	Period	Amount (₹ in lakh)
1	Upto 5	49	2005-2010	1,854.82
2	6 to 10	42	2000-2005	6,849.15
3	11 to 15	41	1995-2000	17,432.65
4	16 to 20	36	1990-1995	2,409.60
5	21 to 25	28	1985-1990	1,095.43
6	26 to 30	24	1980- 1985	498.54
7	More than 30	22	Before 03/1980	1,932.33
<b>Total</b>				<b>32,072.52</b>

It was noticed that out of 52 cases, agreements for drawing water had been executed in six cases only. The remaining 46 user agencies were drawing water without permission/intimation to the concerned divisions. Moreover, certificate case under BOPDR Act was filed by the EE, Ranchi Division against one user agency i.e., M/s South Eastern Railway, Hatia, Ranchi only in September 2011. This was indicative of slackness on the part of the officials in realisation of Government dues. Due to inaction on the part of the Department, ₹ 384.77<sup>12</sup> crore remained unrealised from the users. Collection of arrears of ₹ 19.32 crore was pending for more than 30 years, realisation of which is not possible now.

After we pointed out the matter (between January and April 2011), the Department stated (October 2011) that demands were being sent regularly to the users but most of them had not executed the agreements. It was further stated that a model agreement had been finalised and would be executed with all users as soon as

<sup>12</sup> ₹ 384.77 crore ( ₹ 7.09 crore+ ₹ 377.68 crore) Irrigation arrear ₹ 7.09 crore and non- irrigation arrear ₹ 377.68 crore ( 320.73 + 56.95).

possible. Regarding filing of certificate case against the defaulters, it was stated that the Department would re-look into the legality of the issues. Further reply has not been received (February 2012).

### 7.6.12 Non-installation of water meters

The BI Act, 1997 provides that water rate may be levied whenever water is supplied, made available or used for the purpose of irrigation, municipal supply, industrial and commercial purposes. Further, as per section 77 of the BI Act, for water to be used for purposes other than irrigation, under such special condition and restriction as to the limitation and control of supply as permitted by the Canal officer (EE) and various executive orders, meters will be installed and maintained at the cost of the user agencies and the same would be under the control of Government authorities.

We noticed during audit scrutiny of seven Waterways divisions<sup>13</sup> that there was no system to monitor the quantity of water supplied. Industries were drawing water from different sources but only nine<sup>14</sup> out of the 52 test checked user agencies had installed the meters. The Divisions were raising demand on the basis of the water supplied as per the log

books of the pumps installed by the user agencies except M/s Usha Martin Limited, Tatisilway, Ranchi. Thus, the demand raised against these industries/user agencies were purely on an ad-hoc basis and not on the actual consumption of water.

The Government in its reply stated (October 2011) that the process of installation of meters has already been started and many meters have already been installed by the industries.

### 7.6.13 Internal control

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. They help in prevention of frauds and other irregularities. Internal controls also help in the creation of reliable financial and management information systems for prompt and efficient service and adequate safeguards against evasion of Government revenue.

#### 7.6.13.1 Non-establishment of internal audit

Internal Audit Wing (IAW) of any organisation is a vital component of the internal control mechanism which enables the organisation to assure itself of the degree of compliance with prescribed systems.

As per information furnished by the Department, no internal audit wing had yet been established since formation of the State. Due to absence of an internal audit

<sup>13</sup> Chaibasa, Chandil, Hazaribag, Jamshedpur, Medininagar, Ranchi and Tenughat.

<sup>14</sup> M/s TISCO, Jamshedpur, M/s Bihar Sponge Iron Ltd., M/s Kohinoor Ltd., M/s Usha Martin Ltd., Jamshedpur, M/s Usha Martin Ltd., Tatisilway, M/s Rungta Mines Ltd., Chaibasa, SE Rly. Ranchi & Hatia, M/s Hindalco, Muri, Ranchi and M/s Bokaro Steel Plant, Bokaro.

mechanism, the Government did not have any means to get an independent assurance about the efficacy of the functioning of the WWDs/IDs.

The Government in its reply stated (October 2011) that internal audit was performed by the State Finance Department whenever required. The reply was not tenable as internal audit was not conducted by the Finance Department during 2005-10.

### 7.6.13.2 Non-maintenance of records/register

#### Records for *Chat* land<sup>15</sup>

According to the BI Act, 1997, the rules made thereunder and directives issued by the WRD in December 1997, *Chat* land is to be settled on lease basis for nine months for the period from June to March each year, for cultivation to persons belonging to landless, scheduled caste and other poor classes on priority basis. The settlement amount of *Chat* land alongwith the amount of water rate for *Kharif* and *Rabi* are to be collected in advance before signing the lease document.

During test check of the records of 10 divisions<sup>16</sup> and the RD, Ranchi, we noticed that no record was maintained to show the total area of *Chat* land under the control of the respective divisions. Further, no periodic reports/returns were prescribed by the Department regarding usage of *Chat* land, to be

furnished by the divisions to the Dy. Collector, RD, Ranchi/Directorate. Due to non-maintenance of basic records by the divisions and lack of monitoring by the Directorate, the Government/Department was not in a position to assess the available land and ensure its settlement resulting in potential loss of revenue to the Government.

The Government in its reply stated (October 2011) that suitable instructions have already been issued to maintain the records pertaining to *Chat* land. Further reply has not been received (February 2012).

#### Demand, Collection and Balance Register

According to the Bihar Irrigation Laws, a combined Register called "Demand, Collection and Balance Register" of water rates is required to be maintained by the revenue collecting division to show the position of collection and balance amount of water rates at a glance for a particular period.

We noticed in 10 divisions<sup>17</sup>, that demand, collection and balance registers were not being maintained. The demand and collection figures were being watched through files instead of the registers.

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<sup>15</sup> Government land which is situated on both sides of the canal.

<sup>16</sup> Chaibasa, Chandil, Deoghar, Dumka, Gumla, Hazaribag, Jamshedpur (Ghatshila and Kharkai Dam Division), Medininagar, Ranchi and Tenughat.

<sup>17</sup> Revenue Division Ranchi, WWD Chaibasa, Chandil, Dumka, Gumla, Hazaribag, Jamshedpur (Kharkai Dam Division-II and Kharkai Canal Division), Medininagar, Ranchi and Tenughat

After we pointed out the matter, the Government accepted the audit observation and stated (October 2011) that necessary instructions would be issued to maintain the register. Further reply has not been received (February 2012).

### Certificate of Treasury Remittance Register (CTR)

A CTR is to be obtained monthly and noted in a register to keep watch on the water rates collected and deposited into the treasury. We noticed that the CTR register was not being maintained in any of the divisions/circles except Waterways Division, Ranchi.

After we pointed out the matter, the Government stated (October 2011) that instructions had been issued to maintain the CTR. Further reply has not been received (February 2012).

### Compliance deficiencies

#### 7.6.14 Non-raising/Short raising of demand of water rates

Under the BI Act, 1997 all rights in the water of any river, natural stream or natural drainage channel, natural lake or other natural collection of water shall vest in the State Government. Further, under the Bengal Irrigation Act, 1876 and rules made thereunder, the Canal Officer (EE) shall supply water for purposes other than irrigation, on payment of water rates prescribed by the Government from time to time. Further, according to instructions issued by the Chief Engineer, WRD in June 2007, water shall be drawn by any user agency only after executing an agreement and installation of water meter under the control of the Department.

**7.6.14.1** We called for the information regarding consumption of water by an user agency, M/s Swarnarekha Hydel Power Project, Ranchi, from Waterways Division, Ranchi. From the information furnished by the divisional authorities, we noticed (January 2011) that the user agency had drawn 86,808.13 crore gallon of water from Getalsud Reservoir for commercial

purposes from 1992-93 to 2009-10. We also noticed that agreement with the user agency has not been executed even after the instructions of the CE of June 2007. The divisional authorities did not raise any demand for realisation of the water rates which worked out to ₹ 355.44 crore<sup>18</sup>. Of these, ₹ 82.87 crore pertained to the period 2005-06 to 2009-10. This resulted in non-realisation of water rates of ₹ 355.44 crore.

The Government in its reply during exit conference stated (October 2011) that the process for execution of agreements with the user agencies was in progress at a fast pace in the light of the model agreement approved by the Law Department, Government of Jharkhand.

<sup>18</sup> 1992-93 to 1994-95: 15,68,45,380.96 thousand gallon @ ₹ 3 per thousand gallon.  
1995-96 to 1997-98: 23,34,43,923.84 thousand gallon @ ₹ 4 per thousand gallon.  
1998-99 to 2009-10: 47,77,92,014.88 thousand gallon @ ₹ 4.50 per thousand gallon.

**7.6.14.2** The Drinking Water & Sanitation Divisions (DW&S) deals in supply of water in rural and urban areas and Waterways/Irrigation/Dam division has to raise demand against consumption of water accordingly. We collected information/data from 12 DW&S<sup>19</sup> regarding the water consumed during the period of review from 2005-06 to 2009-10 and cross verified the same with eight Waterways/Irrigation/Dam divisions<sup>20</sup> under whose jurisdiction the aforesaid DW&S divisions lie. We noticed that these divisions had not raised any demand for utilisation of natural water of 8,945.31 crore gallon against 12 user agencies. This resulted in non-raising of demand amounting to ₹ 40.27 crore<sup>21</sup>. The Department may review the position for the earlier period.

The Government in its reply stated (October 2011) that it had been notified to realise the revenue from the DW&S divisions. Further reply has not been received (February 2012).

Section 77 of the BI Act provides that on application being made for a supply of water to be used for purposes other than those of irrigation, the Canal officer may give permission for water to be taken for such purposes under such special conditions and restrictions as to the limitation and control of the supply as he shall think proper to impose in each case.

**7.6.14.3** We noticed in two waterways/dam divisions that two user agencies<sup>22</sup> (industries) were drawing water for commercial purposes in excess of the agreed volume of water for which no demand was raised by the divisions. This resulted in short raising of demand of ₹ 1.70 crore.

The Government in its reply stated (October 2011) that a committee has been constituted to settle the dispute over quantity of water actually consumed by the user agencies and demands would be raised accordingly. Further reply has not been received (February 2012).

**We recommend that the Government may consider establishing a mechanism for ensuring co-ordination with other departments/undertakings for cross- verification of information/data.**

### 7.6.15 Conclusion

The review on “Receipts from Major and Medium Irrigation Projects” indicated that there was non-achievement of irrigation targets fixed by the Department. The arrears of revenue of water supplied for irrigation showed an increasing trend during the last five years. The revenue recovery mechanism was found to be weak as evidenced by the low recovery of water rates for irrigation purpose ranging between ₹ 3.60 lakh and ₹ 12.11 lakh only. Various user agencies were drawing water for commercial purposes without executing agreements with the Department or in contravention of

<sup>19</sup> Chaibasa, Chas, Daltonganj, Deoghar, Dumka I & II, Godda, Gumla, Hatia, Hazaribag, Swarnarekha and Tenughat.

<sup>20</sup> Chaibasa, Deoghar, Dumka, Gumla, Hazaribag, Medininagar, Tenughat and Ranchi.

<sup>21</sup> 8,94,53,147 thousand gallon @ ₹ 4.50 per thousand gallon.

<sup>22</sup> M/s Tata Steel Ltd., Jamshedpur and M/s ACC Ltd., Chaibasa.

agreements leading to shortfall in assessment and realisation of water rates. There was no time limit prescribed for filing certificate cases for recovery of arrears which resulted in accumulation of huge arrears. No internal audit wing was set up in the Department despite the fact that the internal control mechanism was weak.

### 7.6.16 Summary of recommendations

The Government may consider:

- issuing suitable instructions to the Water Resources Department for preparing the BEs on a realistic and scientific basis;
- making it mandatory for the divisions for timely preparation of ‘Sudkar’, ‘Khesra’ and ‘Khatiyani’ and timely submission to the revenue division to recover the water rates for irrigation;
- allowing supply of water for commercial purposes only after execution of agreements and installation of water meters. The system of periodical inspection of the meters may be introduced so that demand is based on actual consumption of water; and
- fixing a specific time limit for filing and disposal of certificate cases for early recovery of the arrears of water rates.

## B. FOREST RECEIPTS

### 7.7 Non-disposal of unclaimed seized forest produce

Under the provisions of the Indian Forest Act, 1927, unclaimed forest timber shall vest with the Government. According to an order issued by the PCCF in September 1999, unclaimed seized forest produces are required to be disposed immediately or transferred to the Forest Development Corporation.

We noticed from the offence register, prosecution register and case files in three forest divisions<sup>23</sup> that unclaimed forest produce<sup>24</sup>, involved in 102 cases, was seized

between 2006-07 and 2009-10. In one case of Deoghar, the value was not assessed by the division. We calculated the value of forest produce on the basis of departmental schedule of rates in the case of Deoghar and as assessed by the divisional forest officers in the rest of the cases, the total value of timber worked out to ₹ 9.52 lakh. The Department neither disposed the forest produce immediately nor transferred it to the Forest Development Corporation. This resulted in non-realisation of revenue of ₹ 9.52 lakh. Further, the forest produce lying in the open, exposed to the vagaries of nature, was likely to deteriorate in terms of quality and value.

<sup>23</sup> Territorial divisions: Deoghar (1), Khunti (27) and Wild Life, Hazaribag (74).

<sup>24</sup> 3,647 pieces, 4,276 CuM timber, 50 bags and 48 bundles of kendu leaves, 12 bullock carts and 13 qnts of fuel wood.

After we pointed out the matter between July 2010 and February 2011, the DFOs stated that the action would be taken for speedy disposal of seized forest produce. Further reply has not been received (February 2012).

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

## 7.8 Illegal extraction of minerals from forest area

Under the provisions of the IF Act, quarrying stone, burnt lime or charcoal or collection or removal of any forest produce has been prohibited and was punishable. In the interim order of December 1996, the Hon'ble Supreme Court directed\* to stop all such ongoing activities, without prior approval of the Central Government. According to an order issued by the Principal Chief Conservator of Forests in September 1999, unclaimed seized/illicit forest produce is required to be disposed immediately by way of auction or transferred to the State Trading Corporation. Prosecution is required to be initiated in claimed cases only.

\* TN Godavaram Thirumal Pad Vrs. Union of India & other Working Plan (Civ) No. 202.

We noticed from the offence register, prosecution register and case files in two forest divisions<sup>25</sup> that unclaimed minerals, namely boulders, *dhibra* mica, shining stone and *morram* valued at ₹ 7.92 lakh (as assessed by the division) illegally extracted from forest land were seized

between September 2006 and February 2010 and were lying in the division. The DFOs did not dispose the minerals instead the cases were forwarded to the courts. Further, the divisions did not obtain permission from the respective courts for disposal of the minerals. This resulted in blocking of revenue of ₹ 7.92 lakh.

After we pointed out the cases between February and March 2011, the DFO, Giridih stated that action is being taken in this regard and permission of the courts would be taken while DFO, Wild Life, Hazaribag stated that instructions regarding disposal of seized minerals or boulders would be sought from senior officers of the Department. Further reply has not been received (February 2012).

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<sup>25</sup> Territorial Divisions: Giridih and Wild Life, Hazaribag.

We reported the matter to the Government in June 2011 followed by a reminder issued in September 2011; their reply has not been received (February 2012).

**Ranchi**  
**The**

**(Mridula Sapru)**  
**Principal Accountant General (Audit)**  
**Jharkhand**

**Countersigned**

**New Delhi**  
**The**

**(Vinod Rai)**  
**Comptroller and Auditor General of India**