Report of the Comptroller and Auditor General of India for the year ended 31 March 2011

Report No. 3

Revenue Receipts

Government of Assam

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PREFACE

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

The audit of revenue receipts of State Governments is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the information on the State revenues, response of the departments towards audit, audit planning and results of audit of receipts of the State Government comprising taxes on sales, trade etc., state excise, taxes on motor vehicles, land revenue, forest receipts, other tax and non-tax receipts of the State.

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

OVERVIEW

This Report contains 28 paragraphs including three performance audits relating to non/short levy of taxes, royalty, fees, rent, interest and penalty etc., involving revenue implication of ₹ 236.60 crore in respect of various tax and non-tax receipts. Some of the major findings are mentioned below:

I. GENERAL

- The total receipts of the State for the year 2010-11 were ₹ 23,004.94 crore against ₹ 19,884.50 crore in the previous year. Of this, 36 *per cent* was raised by the Government through tax revenue (₹ 5,929.84 crore) and non-tax revenue (₹ 2,373.33 crore). The balance 64 *per cent* was received from the Government of India in the form of State's share of net proceeds of divisible Union taxes (₹ 7,968.62 crore) and grants-in-aid (₹ 6,733.15 crore).

(Paragraph 1.1)

- During the year 2010-11, only one Audit Committee meeting in respect of Transport Department was held in which 213 paragraphs involving ₹ 3.31 crore, were settled.

(Paragraph 1.2.2)

- Test check of records of 205 units of sales/value added tax, motor vehicles, state excise, forest, other tax and non-tax receipts conducted during the year 2010-11 revealed under assessment/short levy/short demand leading to loss of revenue amounting to ₹ 1,107.73 crore in 587 cases. During the course of the year 2010-11, the concerned departments accepted under assessments etc. of ₹ 25.07 crore in 250 cases.

(Paragraph 1.5.1)

II. TAXES ON SALES, TRADE ETC.

A performance audit on **"Working of Sales Tax Check Posts in Assam"** revealed the following:

Though the total tax revenue of the Department showed an increasing trend during 2005-06 to 2009-10, the revenue collected at the check posts and its share in total tax revenue showed a decreasing trend, except in 2009-10.

(Paragraph 2.11.6)

Our verification of records of the exit check post of West Bengal revealed that more than 32 *per cent* of the vehicles entering the State with taxable goods for dealers of Assam were not found entered in the entry check post at Boxirhat.

(Paragraph 2.11.7.4)

Due to lack of coordination between the check posts of Taxation Department and Transport Department, there were discrepancies in total number of vehicles at Boxirhat and Damra check posts.

(Paragraph 2.11.8)

Due to absence of a system to monitor the status of surrender of the transit passes at the exit check posts, vehicles carrying goods meant for other States could not be watched. In 268 cases i.e. 15 *per cent* of the sample test checked, we noticed that the vehicles did not cross the exit check posts and delivered the goods within the State leading to loss of revenue of ₹ 13 crore.

(Paragraph 2.11.9)

Despite availability of information relating to check posts at the unit offices, the assessing officers could not detect concealment of turnover by the dealers resulting in non-realisation of tax of ₹ 20.74 crore including interest and penalty.

(Paragraph 2.11.15)

A performance audit on **"Utilisation of declaration forms in course of inter-state trade and commerce"** revealed the following:

Incorrect grant of concession/exemption against C/F forms issued in the name of other dealers resulted in non/short levy of tax and interest of ₹ 1.55 crore.

(Paragraph 2.12.9.1)

Evasion of tax by fraudulent utilisation of fake/obsolete forms resulted in short levy of tax and interest of ₹ 6.43 lakh.

(Paragraph 2.12.9.2)

Variation between the figures of the forms as disclosed by the issuing dealers and those disclosed by the utilising dealers resulted in short levy of tax and interest of ₹ 50.21 lakh.

(Paragraph 2.12.9.3)

Irregular allowance of concessional rate of tax against inter-state sale to un-registered dealers resulted in short levy of tax of ₹ 74.23 lakh.

(Paragraph 2.12.9.4)

Other audit observations

Incorrect grant of exemption on export resulted in short/ non-levy of tax of ₹ 68.10 lakh including interest.

(Paragraph 2.14)

Incorrect assessment of works contract resulted in short levy of tax of ₹ 71.14 lakh.

(Paragraph 2.15)

Irregular and excess allowance of exemption to industrial units resulted in non-levy of tax of ₹ 93.90 lakh including interest.

(Paragraph 2.16)

Incorrect grant of the benefit of concessional rate of tax on sale of goods against Form 'B' resulted in short levy of tax of ₹ 93.34 lakh including interest.

(Paragraph 2.18)

III. STATE EXCISE DUTY

Excise duty of ₹ 1.45 crore recoverable from two spirit contractors for non/short lifting of country spirit was neither levied nor realised.

(Paragraph 3.10)

Establishment charges of ₹ 35.58 lakh towards the cost of deployment of excise officials in 17 distilleries/bonded warehouses were not realised.

(Paragraph 3.11)

Licensees of distilleries, wholesale bonded warehouses, foreign liquor "Off" and "On" shops and bars were allowed to function without realisation of licence fee of ₹ 20.70 lakh.

(Paragraph 3.12)

IV. MOTOR VEHICLE TAXES

A performance audit on **"Computerisation in the Transport Department"** revealed the following:

- Lack of a well defined IT strategy/policy affected the mechanism of measuring and monitoring the progress of computerisation project, besides, hampering the implementation of revised rates.

(Paragraph 4.8.7.2)

- Pending backlog data entry and capture of invalidated data in the system rendered State Register and National Register incomplete.

(Paragraph 4.8.7.3)

- Non-mapping of and blank values in columns related to tax rates in the software led to short realisation of revenue of ₹ 4.84 crore.

(Paragraph 4.8.10.5)

- Non-development of technical expertise within the department led to over reliance on NIC for system maintenance, administration and back-up.

(Paragraph 4.8.14)

- Non-review of the 'combined registers' and non-issue of demands by the DTOs resulted in non-realisation of road tax of ₹ 46.75 lakh. Besides, fine at prescribed rate was also leviable.

(Paragraph 4.10)

V. OTHER TAX RECEIPTS

Land Revenue Department

Instead of depositing the entire receipts into the Government account except the retainable amount of ₹ 10,000, 13 *Mouzadars* collected revenue of ₹ 2.85 crore, and retained ₹ 1.03 crore therefrom unauthorisedly. Interest of ₹ 47.84 lakh leviable on the defaulting *Mouzadars* was not levied.

(Paragraph 5.3)

VI. FOREST RECEIPTS

Issue of permits at pre-revised/lower rates led to short realisation of ₹ 1.06 crore.

(Paragraph 6.6)

Irregular reduction of *mahal* materials and amount payable after settlement of *mahal* led to loss of revenue of ₹ 91.39 lakh.

(Paragraph 6.7)



CHAPTER–I: GENERAL

1.1 Trend of Revenue

1.1.1 The tax and non-tax revenue raised by the Government of Assam during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in Table 1.

Table 1

Trend of Revenue

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	**Revenue raised by the State Government**					
	• Tax revenue	3,483.32	3,359.50	4,150.21	4,986.72	5,929.84
	• Non-tax revenue	1,859.27	2,134.59	2,271.90	2,752.95	2,373.33
	Total	**5,342.59**	**5,494.09**	**6,422.11**	**7,739.67**	**8,303.17**
2.	**Receipts from Government of India**					
	• Share of net proceeds of divisible Union taxes and duties	3,898.99	4,918.21	5,189.90	5,339.53	7,968.62[1]
	• Grants-in-aid	4,425.37	4,912.62	6,465.03	6,805.30	6,733.15
	Total	**8,324.36**	**9,830.83**	**11,654.93**	**12,144.83**	**14,701.77**
3.	**Total receipts of the State Government (1 and 2)**	**13,666.95**	**15,324.92**	**18,077.04**	**19,884.50**	**23,004.94**
4.	**Percentage of 1 to 3**	**39**	**36**	**36**	**39**	**36**

Source: Finance Accounts.

[1] Note: For details, please see statement No. 11: Detailed accounts of revenue by minor heads in the Finance Accounts (Volume-2) of Government of Assam for 2010-11. Figures under the "share of net proceeds assigned to States" under the major heads – 0020 - corporation tax, 0021 - taxes on income and expenditure, 0032-taxes on wealth, 0037 - customs, 0038 - union excise duties, 0044 - service taxes and 0045-other taxes and duties on commodities and services booked in the Finance Accounts under 'A - tax revenue' have been excluded from revenue raised by the State Government and included in 'States' share of divisible Union taxes' in the above table.

The above table indicates that during the year 2010-11, revenue raised by the State Government (₹ 8,303.17 crore) was 36 *per cent* of total receipts against 39 *per cent* in the preceding year. The balance 64 *per cent* of receipts during 2010-11 was from the Government of India.

1.1.2 Details of tax revenue raised during the period 2006-07 to 2010-11 are mentioned in Table 2.

Table 2
Tax revenues

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Taxes on sales, trade etc.,	2,783.24	2691.43	3,110.58	3,535.26	4,318.60	22
2.	State excise	174.88	188.71	198.68	239.19	323.12	35
3.	Stamp duty and registration fees						
	Stamps - judicial	11.40	15.08	13.38	9.72	7.66	(-) 21
	Stamps - non-judicial	61.08	64.61	55.39	55.56	64.61	16
	Registration fees	24.84	30.22	42.40	43.18	50.57	17
4.	Taxes and duties on electricity	15.89	4.62	22.36	27.07	41.58	54
5.	Taxes on vehicles	151.15	138.62	145.21	177.26	231.99	31
6.	Taxes on goods and passengers	70.15	12.39	284.67	545.41	478.10	(-) 12
7.	Other taxes on income and expenditure – Tax on professions, trades, callings and employments	108.36	124.68	137.73	150.15	160.60	7
8.	Other taxes and duties on commodities and services	5.66	6.24	8.27	8.67	9.93	15
9.	Land revenue	74.15	79.76	113.36	116.91	141.88	21
10.	Taxes on agricultural income	2.52	3.14	18.18	78.34	101.20	29
	Total	**3,483.32**	**3359.50**	**4,150.21**	**4,986.72**	**5,929.84**	**19**

Source: Finance Accounts.

Following reasons for variation were reported by the concerned departments:

Taxes on sales/trade: The increase was attributable to increased collection of taxes on tea due to increase in rate of tax.

State excise: The increase was due to issue of more licences for India made foreign liquor and re-structuring of excise levies thereon.

Taxes on vehicles: The increase was due to increase in number of vehicles, increase in number of certificate of fitness and introduction of new national permit system with effect from June 2010.

The other departments did not inform (August 2011) the reasons for variation, despite requests (May and July 2011).

We have analysed the reasons for major variations in other heads which are discussed below.

Taxes and duties on electricity: The increase is mainly due to book adjustment of ₹ 31.79 crore against minor head 101-taxes on consumption and sale of electricity for settlement of cross liabilities between Assam State electricity Board and Government of Assam.

Land revenue: The increase is mainly due to more collection of land revenue/tax and receipt from sale of Government estates.

Taxes on agricultural income: The increase is mainly due to increased tax collection and other miscellaneous receipts.

1.1.3 Details of non-tax revenue raised during the period 2006-07 to 2010-11 are mentioned in Table 3.

Table 3

Non-tax revenues

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) / decrease (-) in 2010-11 over 2009-10
1.	Petroleum	1,385.82	1,547.88	1,430.12	1,574.18	1,625.93	3
2.	Interest receipts	167.49	240.72	433.16	493.63	415.88	(-) 16
3.	Dairy development	0.07	0.09	0.04	0.18	0.20	11
4.	Forestry and wild life	42.99	75.03	115.64	160.56	131.01	(-) 18
5.	Non-ferrous mining and metallurgical industries	0.42	0.66	0.54	1.24	0.83	(-) 33
6.	Miscellaneous general services	(-) 0.01	105.03	104.98	210.88	0.01	(-) 100
7.	Major and medium irrigation projects	0.38	0.36	0.56	0.59	0.38	(-) 35
8.	Medical and public health	5.50	7.15	7.91	7.10	8.42	19
9.	Co-operation	0.22	0.29	0.96	0.28	0.74	164
10.	Public works	3.09	2.89	3.84	3.95	3.15	(-) 20
11.	Police	14.91	13.16	12.69	30.91	25.13	(-) 19
12.	Other administrative services	9.61	13.57	12.77	102.06	58.89	(-) 42

13.	Coal and lignite	19.71	17.88	19.20	37.54	29.35	(-) 22
14.	Roads and bridges	32.04	44.08	66.90	79.86	22.62	(-) 72
15.	Others[2]	177.03	65.80	62.59	49.99	50.79	2
Total		**1,859.27**	**2,134.59**	**2,271.90**	**2,752.95**	**2,373.33**	**(-) 14**

Source: Finance Accounts.

Following reasons for variation were reported by the concerned departments:

Forestry and Wildlife: The decrease was due to non-settlement of *mahal*/quarry of minor minerals.

Major and Medium Irrigation projects: The decrease was due to short realisation as the cultivators were stated to be reluctant to pay irrigation service charges/arrear service charges.

Coal and lignite: The decrease was due to decrease in production and non-payment of royalty at revised rate by the Assam Mineral Development Corporation Limited.

Other departments did not inform (August 2011) the reasons for variation, despite requests (May and July 2011).

We have analysed the reasons for major variations in other heads which are discussed below.

Miscellaneous general services: The decrease is mainly due to non-receipt of Debt waiver incentive from Government of India during 2010-11.

Public works: The decrease was mainly due to less receipt of hire charges of machinery and equipment and other receipts.

Other administrative services and roads and bridges: The decrease was mainly due to less realisation of other receipts.

1.2 Response of the Departments/Government to audit

The succeeding paragraphs 1.2.1 to 1.2.5 discuss the response of the departments/Government to audit.

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

The Principal Accountant General (PAG) (Audit), Assam conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during such inspection and not settled on the spot, which are issued to the heads of offices so inspected with copies forwarded 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

[2] Others included 29 major head of accounts.

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 separately reported to the heads of the departments and the Government.

Our review of IRs issued upto December 2010 disclosed that 2,735 paragraphs involving a money value of ₹ 907.46 crore relating to 871 IRs remained outstanding at the end of June 2011 as mentioned in Table 4.

Table 4

	June 2009	June 2010	June 2011
Number of outstanding IRs	1,364	1,518	871
Number of outstanding audit observations	3,685	4,033	2,735
Amount involved (₹ in crore)	711.53	767.23	907.46

Department-wise details of IRs, audit observations pending settlement as on 30 June 2011 and the amounts involved are mentioned in Table 5.

Table 5

Outstanding IRs and paragraphs

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance (Taxation)	(a) Taxes on sales, trade, *etc.*	109	626	292.14
		(b) Taxes on agricultural income	9	40	3.59
		(c) Entry tax, Electricity duty, Entertainments tax, and luxury tax, *etc.*	77	99	307.74
2.	Excise	State excise	51	163	9.21
3.	Revenue	Land revenue	103	290	50.17
4.	Transport	Taxes on motor vehicles	183	512	23.25
5.	Stamps and registration	Stamp duty and registration fees	46	92	0.55
6.	Mines and geology	Non-ferrous mining and metallurgical industries	9	37	79.71
7.	Environment and forest	Forestry and wild life	284	876	141.10
Total			**871**	**2,735**	**907.46**

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 in 237 IRs issued upto December 2010. Large pendency of IRs due to non-receipt 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 (Audit) in the IRs.

We recommend that the Government take suitable steps to install an effective system that ensure prompt and appropriate remedial action on 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 and also did not take action to recover loss/outstanding demand in a time bound manner.

1.2.2 Departmental audit committee meetings

The Government set up audit committees to monitor and expedite the progress of settlement of IRs and paragraphs contained in the IRs. Details of audit committee meetings held during 2010-11 and the paragraphs settled are mentioned in Table 6.

Table 6
Position of Audit Committee Meetings

(₹ in crore)

Name of the Department	Number of meetings held	Number of paragraphs settled	Amount
Transport	1	213	3.31
Total	1	213	3.31

Audit Committees of the respective departments do not appear concerned about the huge accumulation of audit observations contained in the IRs. Though we took up the matter of holding the meetings on a regular basis with the concerned departments/Government, we did not get positive response except from the Transport Department.

We recommend that the Government may make it mandatory for the Departments to hold at least one meeting of the Audit Committee every year.

1.2.3 Response of the departments to the draft audit paragraphs

The Finance Department issued instructions (March 1986) to all the departments to furnish replies to draft audit paragraphs within two months. The PAG's office forwards draft paragraphs containing major irregularities prepared on the basis of audit observations to the Secretaries of the concerned departments through demi-official letters drawing their attention to audit findings with the request to send their response within six weeks.

Draft paragraphs/performance audits included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the Secretaries of the departments between March and June 2011 through demi-official letters with the request to furnish their replies/comments within six weeks. Out of 28 draft paragraphs including three performance audits incorporated in this report, replies either part or full, of the departmental officers in respect of 26 draft paragraphs had been received (August 2011). We did not receive response of Environment and Forests Department to any of the draft paragraphs included in this Report, despite reminders and requests at the level of the Department/Government. The fact of non-receipt of replies from the Government is indicated at the end of the relevant paragraph included in this Audit Report.

Also, we did not receive para-wise replies of the Department/Government on the performance audit on "Working of sales tax check posts in Assam" despite our specific requests to the Department/Government including the Principal Secretary of the Finance Department. Hence, the performance audit has been incorporated with the preliminary replies of the Department/Government furnished during the exit conference.

Thus, similar to the inaction of the Departments in furnishing timely replies to the IRs, the highest officers of the Environment and Forests and Taxation Department did not send their responses on the draft paragraphs and performance audit in time due to which these had to be incorporated without their response or with preliminary replies furnished during the exit conferences. This underlines the need for the Departments and Government to be more responsive to audit observations in the interest of State revenues.

1.2.4 Follow up on Audit Reports – summarised position

The Finance Department issued (May 1994) instructions according to which the departments are required to furnish explanatory notes indicating action taken or proposed to be taken and submit action taken note (ATN) to the Assembly Secretariat with a copy to the PAG, in respect of paragraphs and performance audits included in the Audit Reports within 20 days from the date of receipt of the Audit Report.

The Audit Report (Revenue Receipts) for the year ended 31 March 2010 was tabled in the Legislative Assembly on 8 June 2011. Though the time limit for furnishing ATNs had elapsed, no ATNs in respect of any Department had been furnished. We took up the matter regarding non-furnishing of ATNs by the departments through a demi-official letter with the Principal Secretary to the Government of Assam, Finance Department and await his reply (August 2011).

1.2.5 Compliance with the earlier Audit Reports

During the years from 1999-2000 to 2009-10, the departments/Government accepted audit observations involving revenue implication of ₹ 393.73 crore (out of the total money value of ₹ 3,621.03 crore) of which only ₹ 16.28 crore had been recovered till March 2011 as mentioned in Table 7.

Table 7

Compliance with earlier Audit Reports

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2000-01	104.66	2.16	0.45
2001-02	43.32	11.77	0.06
2002-03	97.69	51.54	0.34
2003-04	413.82	3.35	0.22
2004-05	71.89	4.93	1.24
2005-06	920.60	1.63	0.04
2006-07	186.03	2.17	0.17
2007-08	241.77	16.25	12.35

2008-09	1,155.59	0.54	0.00
2009-10	385.66	299.39	1.41
Total	**3,621.03**	**393.73**	**16.28**

The amount recovered was thus only 4.13 *per cent* of the accepted amount while the Government/departments have accepted only 10.87 *per cent* of the cases included in the Audit Reports. An analysis of accepted cases and recovery made in respect of Audit Reports for the years 2000-01 to 2009-10 reveals that while the position of acceptance has increased, those where recovery was made decreased drastically from 15.67 *per cent* during last year to 4.13 *per cent* in 2010-11.

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 IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last five years in respect of one department has been evaluated and results included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Transport Department** in dealing with cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2005-06 to 2009-10.

1.3.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included in these reports and their status as on March 2011 are shown in Table 8.

Table 8

Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2006-07	166	485	37.62	13	59	7.49	1	4	5.98	178	540	39.13
2007-08	178	540	39.13	22	82	2.97	10	10	0.03	190	612	42.07
2008-09	190	612	42.07	16	42	1.98	0	25	6.29	206	629	37.76
2009-10	206	629	37.76	16	64	3.29	32	200	20.92	190	493	20.13
2010-11	190	493	20.13	16	54	3.76	162	425	15.30	43	122	8.59

During 2010-11, one Audit Committee meeting in respect of Transport Department could be held wherein 213 paragraphs involving revenue of ₹ 3.31 crore were settled. Apart from this, 212 paragraphs involving money value of ₹ 11.99 crore were settled/disposed of by us on the basis of replies received from the departmental officers as well as by conducting reviews of the old IRs.

An analysis of the response of the Department to the IRs indicated that during the last three years 2008-09 to 2010-11, forty eight IRs were issued against which the Department did not send even first replies to 37 IRs (77 *per cent)* reasons for which need to be looked into by the Department and Government. The position of receipt of replies to the outstanding IRs has not improved though regular reminders were issued to the heads of offices/Department.

1.3.2 Assurances given by the Department/Government on issues highlighted in the Audit Reports

1.3.2.1 Recovery of accepted cases

The position of paragraphs pertaining to the Transport Department included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned in Table 9.

Table 9

Status of recovery of accepted cases

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year (2010-11)	Cumulative position of recovery of accepted cases
2005-06	03	0.55	03	0.55	Nil	0.01
2006-07	03	0.94	02	0.59	Nil	0.06
2007-08	01[3]	174.73	01[4]	1.25	Nil	0.61
2008-09	02	0.22	0	0	Nil	0.00
2009-10	01	0.59	01	0.59	Nil	0.00
Total	**10**	**177.03**	**07**	**2.98**	**Nil**	**0.68**

It is noticed that the Department could recover ₹ 68 lakh which is 23 *per cent* of accepted amount of ₹ 2.98 crore.

We observed that though the Department has nominated its internal audit officer as the nodal officer for monitoring all pending audit objections pertaining to the Department as a whole, they are yet to prepare a database of pending audit objections, due to which the Department could not ensure effective and efficient monitoring of outstanding paragraphs pending settlement/disposal/recovery. This is indicative of weak management information system which the Department needs to look into.

1.3.2.2 Action taken on the recommendations accepted by the Department/Government

The performance audits conducted by the PAG are forwarded to the concerned departments/Government with a request to furnish their replies. These performance audits are also discussed in the exit conference and the department's/Government's views received during the exit conferences and at

[3] Performance audit on "Assessment, levy and collection of motor vehicles tax".
[4] Partially accepted.

other points are included while finalising the performance audits for the Audit Reports.

The following paragraph discusses the issues highlighted in the performance audit on the Transport Department that featured[5] in the Audit Report 2007-08 including the recommendations and action taken by the Department on the recommendations accepted by it as well as the Government.

Year of Audit Report	Name of the performance audit	Recommendations	Action taken by the Department/ Government
2007-08	Assessment, levy and collection of motor vehicles tax	The Government may consider making periodical review of combined registers and issuing demand notice to defaulters mandatory. Immediate steps may be taken for recovery of dues as arrears of land revenue in case of non-payment of dues despite notices. The DTOs may be made accountable for failure to recover the dues in time.	The Department stated (August 2011) that they are examining the recommendations of the review for further action.
		The Government may consider taking steps to strengthening the system of maintenance of records/registers relating to realisation of the composite tax. Also, co-ordination between the STA, Assam and the STAs of other States may be strengthened to ensure timely action in case of non/late receipt of bank drafts/information regarding numbers of vehicles allowed by respective STAs to ply in the State of Assam.	
		The Government may consider prescribing specific timeline for sending the cases to '*bakijai*' officer. Report/returns to be furnished by the DTOs mentioning amount due, amount realised and amount outstanding during the period of the report may be introduced for better monitoring of the recovery of the arrears.	
		The Government may consider making the internal audit wing operational so as to safeguard the interest of the revenue and avoid recurrence of the mistakes pointed out.	
		The Government may make it mandatory for the Transport Department to cross verifiy the records of other departments periodically to detect trucks carrying load in excess of the permissible weight and levy penalty on the offenders.	

Thus it is seen that the Department is yet to formulate concrete proposals addressing the recommendations of our performance audit, though more than three years have elapsed after the placement of the Audit Report 2007-08 to the State Legislature. Consequently, the Department could not contain the persistent irregularities such as non-realisation of revenue due to non-review of combined registers, non-detection of overloaded vehicles etc., pointed out by us in the above performance audit and in successive Audit Reports including the curent one.

[5] During the last five years 2005-06 to 2009-10, only one performance audit was conducted.

1.4 Audit planning

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

As per the present arrangement, we conduct test check of the records of the departments. During the year 2010-11, the audit universe comprised of 631 auditable units, of which 205 units were audited which is 32 *per cent* of the total auditable units. Details are shown in **Annexure-I**.

Besides the compliance audit mentioned above, three performance audits were also taken up to examine the efficacy of tax administration of sales tax check posts, utilisation of declaration forms in inter-state trade and commerce and computerisation in Transport Department.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

We test checked the records of 205 units of VAT/sales tax, state excise, motor vehicles, forest and other departmental offices during 2010-11 and found underassessment/short levy/loss of revenue aggregating ₹ 1,107.73 crore in 587 cases. During the course of the year, the departments concerned accepted underassessment and other deficiencies of ₹ 25.07 crore involved in 250 cases pointed out during 2010-11 and earlier years. The departments collected ₹ 16.39 crore in 108 cases during 2010-11.

1.5.2 This Report

This report contains 28 paragraphs (selected from the audit observations during the local audit referred to above and during earlier years which could not be included in earlier reports) including three performance audits titled **"Working of Sales Tax Check Posts in Assam", "Utilisation of declaration forms in interstate trade and commerce"** and **"Computerisation in the Transport Department"** relating to short/non-levy of tax, duty and interest penalty etc., involving financial effect of ₹ 236.60 crore. The Departments/ Government have accepted audit observations involving ₹11.27 crore out of which ₹ 36.10 lakh has been recovered. The replies in the remaining cases have not been recieved (August 2011). These are discussed in the succeeding Chapters II to VI.



CHAPTER – II
Taxes on sales, trade etc.

2.1 Tax administration

The Finance (Taxation) Department is responsible for the administration of taxes on sales, trade etc., in the State. The Commissioner of Taxes is the Head of the Department and responsible for administration of all taxation measures and for general control and supervision over the zonal and unit offices and the staff engaged in collection of taxes and to guard against evasion of taxes. He is also the authority for disposing of revision petitions under all Taxation Acts and laws besides providing clarification under Assam Value Added Tax Act, 2003. He is assisted by two Additional Commissioner of Taxes, five Joint Commissioners of Taxes, 15 Deputy Commissioners of Taxes, 25 Assistant Commissioners of Taxes, 165 Superintendents of Taxes, 320 Inspectors of Taxes and other officials in discharging day to day functions both at the Headquarters and regional/unit levels. In addition, there is one Deputy Commissioner of Taxes (Statistics) assisted by one Superintendent of Taxes and two Inspectors of Taxes, two Information Technology Officers and one Finance and Accounts Officer. The Commissionerate of Taxes has one Head Office/Commissioner's Office, 10 Zonal Offices, five Appellate Offices, 34 unit Offices, 23 recovery Offices and 10 check posts.

The functioning of the Department is governed by the provisions of the Assam Value Added Tax Act, 2003 (with effect from 01.05.2005); the Central Sales Tax Act, 1956; the Assam Entry Tax Act, 2008 (with effect from 01.06.2008); the Assam Professions, Trades, Callings and Employments Taxation Act, 1947; the Assam Tax on Luxuries (Hotels and Lodgings Houses) Act, 1989; the Assam Amusement and Betting Taxation Act, 1939; the Assam Electricity Duty Act, 1964; the Assam Taxation (on Specified Land) Act, 1990; the Assam Agriculture Income Tax Act, 1939 and various administrative orders issued from time to time.

2.2 Budget preparation

The Assam Budget Manual lays down that the estimates of revenue receipts should include/project the actual demand including arrears due for past years and the probability of their realisation during the year. According to the Assam Financial Rules, the Finance Department is required to prepare the estimates of revenue after obtaining necessary information/data from the respective Department.

We found that the budget estimates of the Finance (Taxation) Department were prepared taking into account the actual collection of the last seven

months of the previous year and provisional collection of the first five months of the current financial year. Besides, growth over actual receipts of the previous year as well as expected realisation of tax due to adoption of certain measures for augmentation of revenue was also taken into consideration.

2.3 Trend of receipts

Details of budget estimates, actual receipts from VAT/Taxes on sales, trade etc. during the period 2006-07 to 2010-11 along with total tax receipts during the same period are exhibited in Table 1 and graph below.

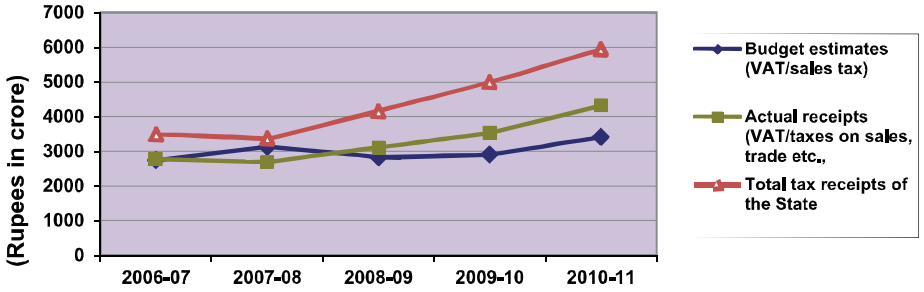
Table 1

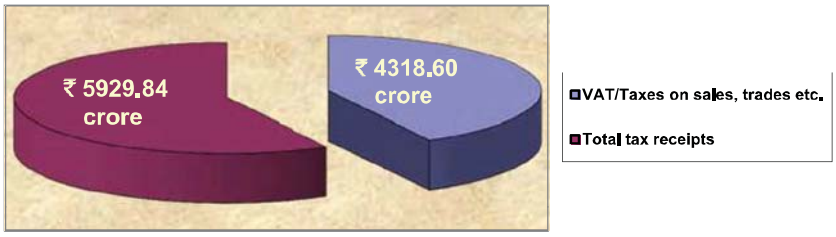
Trend of receipts

(₹ in crore)

Year	Budget estimates	Actual receipts (VAT/ Taxes on sales, trade etc.)	Variation excess (+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual VAT receipts *vis-à-vis* total tax receipts
2006-07	2,734.71	2,783.24	48.53	2	3,483.32	80
2007-08	3,129.51	2,691.43	(-) 438.08	(-) 14	3,359.50	80
2008-09	2,820.69	3,110.58	289.89	10	4,150.21	75
2009-10	2,900.00	3,535.26	635.26	22	4,986.72	71
2010-11	3,409.00	4,318.60	909.60	27	5,929.84	73

Source: Finance Accounts and Departmental figures.





Position of VAT/Taxes on sales, trade *vis-a-vis* total tax receipts during 2010-11

Collection under taxes on sales, trade etc., contributed substantially to the tax revenues of the State. Overall collection of revenue under taxes on sales, trade etc., were more than the budget estimates except during 2007-08. The percentage of taxes on sales, trade etc., over total tax receipts of the State registered slight decrease during 2008-09 to 2009-10 and came down from 80 *per cent* to 71 *per cent*. There was some correction during 2010-11 when it was 73 *per cent*. Revenue increased between two and 27 *per cent* during the last five years except in 2007-08 when there was a 14 *per cent* shortfall in collection.

2.4 Analysis of arrears of revenue

The position of arrears of revenue during the period 2006-07 to 2010-11 is depicted in Table 2 below:

Table 2

Arrears of revenue

(₹ in crore)

Year	Opening balance of arrears	Amount added during the year	Amount collected during the year	Closing balance of arrears
2006-07	652.29	56.24	26.82	681.71
2007-08	681.71	9.60	53.19	638.12
2008-09	638.12	51.88	22.77	667.23
2009-10	667.23	1,221.91	111.25	1,777.89
2010-11	1,777.89	803.48	110.55	2,470.82

Source: Figures as furnished by the Department.

The Department stated (July 2011) that the arrears of revenue had increased drastically in 2008-09, 2009-10 and 2010-11, despite all efforts of assessing officers and some dealers had become untraceable rendering recovery of dues impossible. It was also stated that tax dues on Assam Taxation (on Specified Land) Act, 1990 and Assam Entry Tax Act, 2008 could not be realised due to stay orders from the High Court and the Supreme Court.

The Department further stated that they have chalked out an action plan for expediting recovery of arrears, such as:

- initiating timely action for filing counter affidavit in Supreme Court and High Court cases to facilitate early disposal of the cases;
- gearing up the process for disposal of appeal and revision petitions;
- initiating coercive action like attachment of moveable properties of assessees and issue of warrant of arrest against the defaulting dealers for recovery of dues; and
- undertaking special collection drives from time to time for realisation of arrear dues.

2.5 Assessee profile

The total number of assessees under the Assam Value Added Tax Act during 2010-11 was 1,25,215. We observed that the Department/Commissionerate did not maintain records classifying dealers as large tax payers and small dealers separately. The Department/Commissionerate also did not ascertain the number of dealers who were required to file their return and number of returns received during the year. This is indicative of a weak management information system as the Department should have obtained this information from time to time and prepared a State-wise database of dealers which might be required at any point of time for decision making or framing of appropriate and sound taxation policy.

2.6 Revenue per assessee

The position of total revenue collected vis-à-vis number of assessees and revenue per assessee for the years 2006-07 to 2010-11 are shown in Table 3 below:

Table 3

Revenue per assessee

(₹ in crore)

Year	Number of assessees	Revenue collected	Revenue per assessee
2006-07	1,02,197	2,783.24	0.03
2007-08	1,18,279	2,691.43	0.02
2008-09	89,630	3,110.58	0.03
2009-10	1,06,925	3,535.26	0.03
2010-11	1,25,215	4,318.60	0.03

Source: Figures as furnished by the Department.

Revenue per assessee remained at the level of ₹ 3 lakh during all the years except 2007-08 when it went down to ₹ 2 lakh.

2.7 Arrears in assessment

Details of pending assessment cases at the beginning of the year, cases becoming due for assessment during the year, cases finalised during the year and number of cases pending as of March 2011 as furnished by the Department are mentioned in Table 4.

Table 4

Arrears in assessment

(No. of cases)

Name of Acts	Opening balance as on 1 April 2010	Cases added for assessment during 2010-11	Total assessments due during the year 2010-11	Cases disposed during 2010-11	Balance as on 31 March 2011
Sales Tax (AGST/VAT/CST)	11,019	11,665	22,684	8,238	14,446
APTC&ET[1]	30,117	41,187	71,304	39,302	32,002
Entry Tax	1,766	2,132	3,898	1,887	2,011
Luxury (Hotel & Lodging) Tax	292	495	787	376	411
Electricity duty	1,465	535	2,000	459	1,541
Specified Land	737	682	1,419	586	833
Luxury Tax	4	7	11	9	2
Agriculture Income Tax	1,226	625	1,851	768	1,083
Total	**46,626**	**57,328**	**1,03,954**	**51,625**	**52,329**

Source: Figures as furnished by the department.

The Department completed assessment of only 50 *per cent* of the total cases due for assessment during 2010-11 and there were 52,329 assessments yet to be completed by the Department. We observed that the Department did not have the information on age-wise break up of arrear assessments and those completed in order to keep a watch on the status of pendency so that assessments did not get time barred. Besides, they were yet to conduct a work study on the pending cases in view of shortage of assessing officers[2] which would have enabled them to prioritise the assessment cases and ensure that there was no loss of revenue due to non-completion of assessments within the stipulated timeline.

We recommend that the Department may prepare an action plan for completion of pending assessments and also ensure that no assessment becomes time barred causing loss to the State exchequer.

2.8 Cost of collection

Details of the value of gross collection of taxes on sales, trade etc., expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the relevant all India average percentage of expenditure on collection are mentioned in Table 5.

[1] Assam Professions, Trades, Callings and Employment Taxation.

[2] As of October 2011, there were 129 assessing officers in position against, the sanctioned strength of 166.

Table 5

Cost of collection

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the previous year
2008-09	3,110.58	39.49	1.27	0.83
2009-10	3,535.26	42.69	1.20	0.88
2010-11	4,318.60	73.10	1.69	0.96

Source: Finance accounts and departmental figures.

Percentage of expenditure on gross collection in respect of the last three years was higher than the all India average cost of collection. The abrupt increase in expenditure on collection was mainly due to revision in pay and allowances of the departmental staff and officers during the year.

2.9 Impact of audit

During 2005-06 to 2009-10, we had through our inspection reports (IRs) pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 414.18 crore through 1,134 audit observations. Of these, the Department accepted audit observations in 135 cases involving revenue of ₹ 5.13 crore and had since recovered ₹ 2.16 crore (42.11 *per cent*) in 104 cases. The details are shown in Table 6.

Table 6

Impact of audit

(₹ in crore)

Year of Inspection Report	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	127	187	91.87	17	0.88	2	0.11
2006-07	115	173	61.28	14	1.79	5	0.17
2007-08	135	302	110.86	9	0.19	5	0.12
2008-09	77	235	63.82	10	0.77	7	0.26
2009-10	120	237	86.35	85	1.50	85	1.50
Total	**574**	**1,134**	**414.18**	**135**	**5.13**	**104**	**2.16**

We recommend that the Department may take immediate action to install a mechanism to pursue, monitor and ensure prompt recovery of revenue involved at least in accepted cases.

2.10 Results of audit

Our test check of records of 98 units relating to taxes on sales, trade etc., during 2010-11 revealed underassessment of tax and other irregularities involving revenue of ₹ 349.49 crore in 238 cases, details of which are in Table 7.

Table 7

Results of Audit

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	**"Working of Sales Tax Check Posts in Assam" (A performance audit)**	1	40.44
2.	**"Utilisation of declaration forms in inter-state trade and commerce" (A performance audit)**	1	178.94
3.	Irregular grant of exemption	65	61.39
4.	Non/short levy of tax/interest	47	17.19
5.	Excess allowance of deduction	21	16.24
6.	Turnover escaping assessment	25	14.68
7.	Application of incorrect rate of tax	20	8.76
8.	Incorrect acceptance of declaration forms	8	0.64
9.	Other irregularities	50	11.21
Total		**238**	**349.49**

During the course of the year, the Department accepted underassessment and other deficiencies with revenue implication of ₹ 8.50 crore in 123 cases, of which 44 cases involving ₹ 7.18 crore were pointed out by us during the year 2010-11 and the rest in earlier years. An amount of ₹ 1.04 crore was realised in 78 cases during 2010-11.

Two performance audits **"Working of Sales Tax Check Posts in Assam"** involving revenue implication of ₹ 40.44 crore, **"Utilisation of declaration forms in inter-state trade and commerce"** involving revenue implication of ₹ 178.94 crore and a few illustrative cases with money value of ₹ 10.22 crore are mentioned in the following paragraphs.

2.11 Working of Sales Tax Check Posts in Assam

Highlights

Though the total tax revenue of the Department showed an increasing trend during 2005-06 to 2009-10, the revenue collected at the check posts and its share in total tax revenue showed a decreasing trend, except in 2009-10.

(Paragraph 2.11.6)

Our verification of records of the exit check post of West Bengal revealed that more than 32 *per cent* of the vehicles entering the State with taxable goods for dealers of Assam were not found entered in the entry check post at Boxirhat.

(Paragraph 2.11.7.4)

Due to lack of coordination between the check posts of Taxation Department and Transport Department, there were discrepancies in total number of vehicles at Boxirhat and Damra check posts.

(Paragraph 2.11.8)

Due to absence of a system to monitor the status of surrender of the transit passes at the exit check posts, vehicles carrying goods meant for other States could not be watched. In 268 cases i.e. 15 *per cent* of the sample test checked, we noticed that the vehicles did not cross the exit check posts and delivered the goods within the State leading to loss of revenue of ₹ 13 crore.

(Paragraph 2.11.9)

Despite availability of information relating to check posts at the unit offices, the assessing officers could not detect concealment of turnover by the dealers resulting in non-realisation of tax of ₹ 20.74 crore including interest and penalty.

(Paragraph 2.11.15)

2.11.1 Introduction

The State of Assam is strategically located as all the goods meant for other north eastern States coming from the mainland pass through Assam. While only two check posts at Boxirhat and Damra are entry points[3] to Assam and other north eastern states from the mainland, there are five check posts[4] located between Assam and other north eastern states.

[3] For entry of goods from the mainland. These check posts also work as exit check posts while goods are sent outside the north eastern region by various states including Assam.

[4] Churaibari (exit to Tripura), Dholaibazar (exit to Mizoram), Khanapara (exit to Meghalaya), Narayanpur (exit to Arunachal Pradesh) and Sukhanjan (exit to Manipur and Nagaland).

In order to monitor the entry and exit of goods to and from the State of Assam with specific emphasis on preventing evasion of tax by the dealers of Assam, the Taxation Department, Government of Assam has been empowered by successive Taxation Acts like the Assam General Sales Tax Act, 1993 and the Assam Value Added Tax (AVAT) Act, 2003 and Rules made thereunder as amended from time to time to establish check posts at any place in the State, as may be notified by them, where traffic can be intercepted, detained and searched by the officials of the check posts.

Accordingly, the Taxation Department of Assam established 12 check posts[5] in the State during the period July 1971 to June 2002. Of these, two check posts namely Batamari and Bhalukudubi were declared non-functional with effect from June 2005 and July 2008 respectively. Of the remaining 10 check posts, those at Jalukbari and Kabaitary were also empowered to assess the coal dealers in addition to their normal monitoring duties. Besides the above fullfledged check posts, 15 unit offices were termed as deemed check posts and were empowered to issue and endorse transit passes only.

In general, two types of vehicles carrying goods pass through the check posts, the first being vehicle carrying goods meant for the State of Assam and the other carrying goods meant for other states which pass through Assam. In respect of the first category, the driver or the owner of the vehicles should submit the delivery note at the check post while vehicles of the other category would seek transit pass[6] for using the State as a corridor to proceed to the State for which the goods are destined. After implementation of the Taxation Information Management System (TIMS)[7], the check posts are required to enter the information on each and every vehicle passing through the check posts into the database of TIMS.

The officers-in-charge of the check posts are empowered to inspect documents; intercept, detain and search vehicles; impose and collect tax, levy fine and penalty; maintain movement register of vehicles; counter-sign copies of road permits/delivery notes submitted by vehicles carrying goods meant for delivery within the State and transmit them to the concerned unit offices; and issue transit passes to vehicles carrying goods meant for other States.

We had conducted performance audits on the same topic earlier which were included in the Audit Reports for 1990-91 and 2003-04. While the performance audit featuring in the Audit Report for 1990-91 has been discussed by the Public Accounts Committee (PAC), the performance audit of 2003-04 is yet to be taken up for discussion. Recommendation of PAC on the performance audit of 1990-91 and its present status are discussed in paragraph 2.11.11 of this Report.

Our present performance audit on "Working of taxation check posts in Assam" for the period 2005-06 to 2009-10 revealed a number of systems, compliance and other deficiencies as described in succeeding paragraphs. The

[5] Batamari, Bhalukudubi, Boxirhat, Churaibari, Damra, Dholaibazar, Digharkhal, Jalukbari, Kabaitari, Khanapara, Narayanpur and Sukhanjan.

[6] An authority to allow a vehicle carrying goods from other State passing through the State of Assam.

[7] TIMS has been implemented as part of the computerisation programme of the Department.

matter is of concern as many of the deficiencies[8] observed by us during the course of performance audit were among those which have been included in the reviews featured in Audit Reports referred to above. Repetition of mistakes and continuation of system deficiencies despite these being pointed out by us in the earlier reviews points towards the lack of seriousness on the part of the Department/Government to tackle these recurring irregularities.

2.11.2 Organisational set up

The Secretary, Finance (Taxation) Department is in overall charge of the Taxation Department in the Government. The Commissioner of Tax (CT), Assam is the administrative head of the Taxation Department who is assisted by the Additional Commissioners of Taxes (I) (Addl. CT) /Joint Commissioners of Taxes (JCT). The Addl. CsT/JCsT are responsible for the control of the Zones headed by the Deputy Commissioners of Taxes (DCsT). Each check post/unit in the field functions under the charge of an Assistant Commissioner of Taxes (ACsT)/Superintendent of Taxes under the administrative control of the Zonal DCT. The officers-in-charge of check posts are assisted by the Inspectors of Taxes and other officials.

2.11.3 Audit objectives

We conducted the performance audit with a view to ascertaining:

- the overall efficiency and effectiveness of the functioning of check posts in preventing evasion of taxes;
- the extent of compliance of Acts, Rules and executive orders;
- adequacy of utilisation of inspecting staff;
- the extent of coordination between check posts and unit offices; and
- the adequacy and effectiveness of the internal control mechanism.

2.11.4 Scope of audit

We test checked the records of CT and nine check posts[9] including two deemed[10] check posts for the years 2005-06 to 2009-10 between December 2010 and March 2011. The selection was made based on risk analysis[11] and

[8] Physical verification of goods vehicles, lack of co-ordination between check posts and unit offices, non-issue of delivery notes and non-checking of vehicles importing coal, absence of control over transit of goods through the State etc.

[9] Boxirhat, Churaibari, Damra, Dholaibazar, Guwahati Unit-C, Kabaitari, Khanapara, Sukhanjan and Tezpur.

[10] Guwahati, Unit – C and Tezpur.

[11] Two check posts (Boxirhat and Damra) being the only entry point of goods from the mainland to Assam/other north eastern states and four out of five check posts between Assam and other north eastern states (Churaibari, Dholaibazar, Khanapara and Sukhanjan). The remaining three check posts (Guwahati Unit – C, Kabaitari and Tezpur) were selected based on random sampling.

random sampling. Besides, we cross verified the records of a few unit offices[12] and check posts to examine the level of co-ordination between the two. We also collected material relating to entry of coal into Assam from Meghalaya and cross verified these with the concerned check posts of Assam.

2.11.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Taxation Department of Government of Assam in providing necessary information and records for audit. An entry conference was held in November 2010 to discuss the scope and methodology of the performance audit in which Secretary to the Government of Assam, Finance (Taxation) Department-cum-CT and the JCT participated on behalf of the Department/Government. We reported the findings to the Department and the Government in May 2011. Audit findings and recommendations were discussed in an exit conference held in June 2011 with the same officers of the Department/Government. Replies furnished by the Department/Government during the exit conference have been suitably incorporated in the performance audit.

Audit findings

2.11.6 Trend of revenue

Sources of revenue at the check posts are mainly tax, fee imposed and fine levied on vehicles which fail to produce countersigned transit passes. Two check posts have been given the power to assess coal dealers which, besides discharging their preventive duties also function as assessing offices for coal dealers.

Details of revenue collected at check posts during the period 2005-06 to 2009-10 are indicated in Table 8.

Table 8

Collection of revenue by the check posts

(₹ in crore)

Year	Having assessment power	Having no assessment power	Total collection	Total Taxes on sales, trade etc.	Percentage of col (4) vis-à-vis col (5)
(1)	(2)	(3)	(4)	(5)	(6)
2005-06	39.30	8.95	48.25	2568.41	1.88
2006-07	40.47	7.77	48.24	2783.24	1.73
2007-08	39.76	6.86	46.62	2691.43	1.73
2008-09	25.95[13]	12.74[14]	38.69	3110.58	1.24

[12] Barpeta Road, Dibrugarh, Diphu, Goalpara, Guwahati Units A, B, C & D and Silchar.

[13] The main reason behind the fall in revenue is reduction in the rate of central sales tax from four *per cent* to two *per cent* during 2007-08 and 2008-09. As these check posts assess coal dealers having inter-state transactions, the effect of reduction in CST rates had direct impact on their revenue collections.

2009-10	32.94	14.33	47.27	3535.26	1.34

"Source: Finance Accounts and Departmental Figures"

Revenue collected by Taxation Department showed increasing trend indicating increase in movement of goods through check posts. However, revenue and the percentage of revenue collected at check posts vis-à-vis the total revenue of Taxation Department decreased consistently during 2005-06 to 2008-09, except for some improvement in 2009-10.

We noticed that except two check posts with assessment functions, revenue targets were not assigned to any other check posts including major check posts at Boxirhat and Damra through which entire goods into Assam enter from the mainland. We also noticed that physical verification of goods vehicles was done only in two to four *per cent* of all goods vehicles that entered Assam during the period 2005-06 to 2009-10. These deficiencies were some of the principal contributing factors for the decrease in revenue collection and the percentage of revenue collected by the check posts vis-à-vis total revenue of the Taxation Department.

Besides, the check posts did not maintain the details of sales tax/VAT, security deposits/guarantees etc., realised. This led to clubbing of receipts and securities which would weaken the management Information system (MIS) of Government as deposits would not be possible to be identified for their effective monitoring, besides depicting an inflated and incorrect picture of collection of tax at check posts.

We recommend that the Government may consider fixing financial targets for check posts not having assessment powers as well to serve as a tool for effective monitoring of their functioning and prevent leakage of revenue. Besides, they may also instruct the check posts to maintain the figures of sales tax/VAT, security deposits etc., separately so as to provide a correct picture of collection of tax.

2.11.7 Verification of delivery notes at the check posts

The AVAT Act provides that no person shall transport goods across or beyond a check post except after filing before the officer-in-charge of the check post a declaration in form 61 (delivery note). Otherwise, the concerned officer of the check post shall by an order direct the owner/person-in-charge of the vehicle to deposit advance tax.

We observed that there was lack of control on movement of vehicles through the check posts as evidenced by non/short detection of import/ dispatch of goods by the check posts authorities. We have also come across instances where dealers have brought in goods without submitting declarations (delivery notes) to the check posts. Consequently, these check posts

[14] The abrupt increase in revenue realisation is due to introduction of collection of entry tax in Assam from 2008-09.

failed to serve as the repository of information about entry/exit of goods. A few instances are mentioned in following sub-paragraphs.

2.11.7.1 As per information collected by us from the Directorate of Mineral Resources, Meghalaya[15], we noticed that 100.94 lakh MT of coal were shown as bound for/transiting through Assam through three exit check posts[16] of the Directorate of Mineral Resources, Meghalaya between 2005-06 and 2009-10. Our verification of the Position of submission of delivery notes/transit pass[17] (TP) issued from the corresponding entry check posts[18] in Assam, revealed that neither was any delivery note submitted by the dealers nor was any TP issued by the check posts in Assam in respect of the above goods entering into Assam nor did these check posts have any details of coal entering into Assam. Consequently, neither the volume of coal and details of dealers of Assam to whom the consignments were meant for were recorded in the TIMS database by the authorities of check posts, nor did they realise advance tax on the same which was mandatorily realisable in case of non-submission of delivery notes at check posts in Assam. Further, in respect of coal meant for sale in other states and transiting through Assam, in the absence of TPs, there is a possibility that these goods were sold in Assam as highlighted subsequently in para 2.11.9.

2.11.7.2 We also cross verified the information furnished by the check post of Directorate of Mineral Resources, Meghalaya located at Umkiang (exit from Assam towards Cachar district) with those made available by Digharkhal check post in Assam for the period 2005-06 to 2009-10. While the records of Umkiang check post revealed that 23.74 lakh MT coal[19] had entered into Assam through Digharkhal check post, the latter check post accounted for only 17.52 lakh MT coal. There was, thus, an unaccounted enty of 6.22 lakh MT coal on which the State Government was deprived of revenue.

Failure of check posts to monitor the quantity and value of coal entering Assam in the above cases deprived the Government of revenue that could not be quantified[20]. The authorities assessing the dealers of Assam dealing in coal also did not have access to departmental data for cross verification of the turnover during scrutiny of returns/finalising assessments and thus, had to accept the turnover returned by the dealers.

2.11.7.3 Our verification of the details of turnover reported by the dealers in their returns and those available in the records of the check posts revealed that 29 dealers had reported a turnover of ₹ 758.15 crore in their annual returns for different periods falling between 2005-06 and 2008-09. However, records of concerned check posts through which goods were

[15] The check posts of the Directorate of Mineral Resources, Meghalaya are situated at the exit point of Meghalaya and are erected to serve as a last point of control on transportation of minerals from Meghalaya to other states.
[16] Athiabari, Dainadubi and Umling.
[17] For passing through the State of Assam.
[18] Kabaitari and Khanapara.
[19] 12.73 lakh M.T against delivery notes and 4.79 lakh MT against transit pass
[20] Since the value/sale price of coal differed from year to year/dealer to dealer.

imported by these dealers during the same period indicated entry of goods valued at only ₹ 243.58 crore. Thus, there was a difference of ₹ 514.57 crore between the figures of turnover reported by dealers and those available in the records of check posts in test checked 29 cases only. The assessing officers of the concerned units were thus, compelled to assess the dealers based on the returned turnover without any scope for further checks.

We also noticed instances[21] where the Departmental authorities had intercepted vehicles carrying taxable goods without supporting documents which were not detected by the check posts.

2.11.7.4 TIMS has been implemented in Assam in phased manner and the dates, though called for, were not furnished by the Department. However, at present it is functional in all the check posts and at Headquarters. The Taxation Department has not put in place a system for regular verification of the database at the entry check post at Boxirhat and Damra with the exit check posts of major States like West Bengal and Meghalaya.

We carried out limited cross verification[22] of records of only one entry check post (Boxirhat) with the corresponding exit check posts of West Bengal.

We found that during the period from 15 November 2010 to 3 April 2011, 1,00,228 vehicles carrying mixed goods meant for dealers of Assam crossed the exit check post of West Bengal of which, during the same period 67,990 vehicles (67.84 *per cent*) were found entering the State as per the recordings in the Boxirhat check post.

Thus, the balance of 32,238 vehicles or 32 *per cent* of the vehicles entering the State of Assam through Boxirhat check post during the above period were not recorded in the entry check post. Consequently, the assessing officers did not have the data of value of goods actually imported by the dealers at the time of scrutiny of returns/finalising assessments.

This would indicate a need for strengthening the quality and system of maintenance of data in check posts and monitoring the same very closely as the check posts would need to serve the real purpose of assisting the Government in ensuring correct assessment of the turnover independently of what is reported by the dealers.

After we pointed these out, the Government in respect of points at 2.11.7.3 stated during the exit conference that the probable reason for variation may be import through railways/air. The reply substantiates our contention at paragraph 2.11.20 that goods entering the State through Railways are not mapped with TIMS and hence these are not available with the assessing officers at the time of scrutiny of returns/completion of assessments. Besides, the reply was general in nature and did not contain case wise details of the dealers pointed out by us. As regards 2.11.7.4, while accepting that there is no system of regular cross verification with other States, the Government stated

[21] Three cases detected by the Department in December 2007, November 2008 and February 2009.

[22] As we could obtain the data of exit check posts of West Bengal for limited period from November 2010 to March 2011

that in the past they have carried out cross verification in respect of some specific items.

2.11.8 Co-ordination between the check posts of Taxation Department and the Transport Department

Effective co-ordination between the check posts of various Departments is essential to effectively monitor movement of vehicles/goods and evasion of tax.

We observed that there is lack of co-ordination between the check posts of the Taxation and Transport departments located at the same place. Also, there is no system of periodic reconciliation of the database of vehicles crossing the check posts. Consequently, variation between the figures of the check posts of the Taxation and the Transport Departments remained undetected and unreported. This deprived the Taxation Department of the facility of identification and investigation of cases of evasion of tax.

During our cross verification of the information supplied by the Taxation check posts at Damra and Boxirhat with those of the Transport Department situated at the same location, we found that as per Taxation check posts, 1,26,647 vehicles were not found recorded as having entered the State during the years 2005-06, 2006-07, 2008-09 and 2009-10 when compared to the records of the Transport check posts. In 2007-08, while the records of Boxirhat and Damra Taxation check posts showed that 5,23,123 vehicles had crossed these check posts, those recorded at the Transport check posts indicated that 5,18,718 vehicles had crossed. Thus, there was a discrepancy of 4,405 vehicles during 2007-08. Similar variation (85 vehicles) was noticed in case of check posts at Damra during 2008-09. Details are shown in Table 9.

Table 9

Co-ordination between the check posts of Taxation and Transport Departments

Year	Boxirhat check posts				Damra check posts			
	Vehicle as per the Transport check post	Vehicle as per the Taxation check post	Excess vehicle crossed the		Vehicles as per the Transport check post	Vehicles as per the Taxation check post	Excess vehicles crossed the	
			Transport check post	Taxation check post			Transport check post	Taxation check post
2005-06	262072	257506	4566	–	249853	226790	23063	
2006-07	229758	195628	34130	–	269308	261827	7481	
2007-08	324593	326849	0	2256	194125	196274	–	2149
2008-09	441914	428230	13684	–	126979	127064	–	85
2009-10	473311	433570	39741	–	156618	152636	3982	-
Total			**92121**	**2256**			**34526**	**2234**

Source: Figures as furnished by the concerned departments.

Since the check posts did not record the transactions, the consignments would not show up in the TIMS database rendering it impossible for the concerned

assessing authorities to cross verify the returned turnover with the database of TIMS, thus leaving scope of evasion of tax.

We recommend that the Government may issue specific instructions for verification of transit documents of each and every vehicle passing through the check posts. Also, they may take up cross verification of the databases of entry check posts with the check posts of other departments on sample basis at periodic intervals to detect vehicles entering the State without getting registered at check posts.

After we pointed this out, the Government stated that the variation could be due to non-recording of private/passenger/empty vehicles and vehicles carrying non-taxable goods by the Taxation check posts. Fact remains that the check posts should record the details of all vehicles irrespective of their taxability as the issue whether goods are taxable or not is to be decided by the assessing officer on production of required documents.

However, the Government accepted the recommendations and agreed to look into them.

2.11.9 Absence of control over transit of goods through the State

The AVAT Act and rules made thereunder provides that when a vehicle carrying goods from another State meant for delivery outside the State passes through Assam, the driver of the vehicle is required to obtain a TP at the entry check post and produce the same to the officer-in-charge of the exit check post within thirty days from the date of entry and obtain his endorsement with seal and signature as a proof of exit from the State. The CT directed (July 2007 and December 2008) that check post authorities should ensure accounting of all TPs in TIMS and not to issue any TPs manually. Further, if the officer-in-charge of the entry check post or any other officer from whom the TP was obtained, is satisfied that the owner, driver or person-in-charge of the goods vehicle has failed to deliver the TP without any reasonable cause, such officer may, after giving the person concerned a reasonable opportunity of being heard, impose upon him, in addition to tax and interest, penalty equal to three times of such tax.

Introduction of TIMS has made it easy for the Taxation Department to monitor the status of the TPs issued. We observed that there have been instances of verification by CT and check posts officials to detect cases of non-receipt of TPs at the exit check posts. The Department is, however, yet to streamline the system of periodic review of the database of the TPs. There is also no system of generating periodic reports from the TIMS at the CTs' office and to verify the status of TPs issued by the check posts and their timely submission at exit check posts for effective monitoring at the higher levels.

We cross verified TPs issued by three check posts[23]. During the period 2005-06 and 2009-10, these check posts issued 4,85,090 TPs. Of these, we cross verified 1,808 TPs with the concerned exit check posts which revealed that 268 TPs i.e. 15 *per cent* of the sample involving goods valued at ₹ 28.75 crore did not cross the exit check posts. If a mechanism was available in the Taxation Department for periodic review of the database of TPs, these cases could have been detected. Government has, thus, lost revenue on tax of ₹ 13 crore including interest of ₹ 1.93 crore and penalty of ₹ 8.30 crore on goods in question valued at ₹ 28.75 crore.

We recommend that the Government may consider streamlining the control mechanism by installing a system for periodic review of the database of the TPs by the officers-in-charge of the check posts. Also, they may consider prescribing a system of generating reports from the TIMS at the CTs' office for monitoring at the higher levels.

After we pointed this out, the Department stated during the exit conference that almost all the TPs except five have been endorsed by the respective exit check posts while the status of the remaining five TPs could not be ascertained due to poor storage facility at the check posts. While the Department's reply was not specific about exact number of TPs found to be endorsed, the Department also did not send the copies of the endorsed TPs for our verification. Further, verification of the records of the exit check posts conducted by us has revealed that these vehicles had not crossed the boundary of the State which was duly authenticated by the officials of the check post when seen against the Department's contention that the TPs were endorsed. This underlines the need for further investigation to ascertain the reasons as to how the TPs were subsequently found to have been endorsed, which was earlier denied by the officials of the concerned check posts.

2.11.10 Deployment of staff in the check posts

Efficient functioning of a field formation depends upon the proper deployment of staff and work load is an important factor in assessment of manpower for each unit and has considerable impact on the efficiency of the officials.

We observed significant variation in the work load of officials posted at check posts. While in some check posts, an Inspector of Tax (IT) was checking 16 vehicles per day, in some other check posts the figure was as high as 129. Details are shown in Table 10.

[23] Boxirhat, Damra and Khanapara.

Table 10

Deployment of staff in the check posts

Sl. No	Name of the check post	Number of IT sanctioned / deployed	Number of vehicles which crossed the check posts during 2005-06 to 2009-10	Number of vehicles per day[24] per IT
1.	Damra	12 / 8	964591	66
2.	Boxirhat	8 / 7	1641783	129
3.	Sukhanjan	3 / 3	87758	16
4.	Khanapara	8 / 5	175385	19
5.	Dholaibazar	4 / 2	242829	67

Thus, it may be seen that there is anomaly in sanctioned posts of IT as Damra has been sanctioned with 12 posts of ITs while Boxirhat which is handling the maximum load of vehicles has only eight sanctioned posts. Moreover, though Khanapara is handling ten times lesser vehicles, the sanctioned posts are equal to those of Boxirhat. The anomaly in sanctioned posts and posting of the ITs would not help in raising the efficiency of the ITs which is evident from the low percentage of physical verification as pointed out in the succeeding paragraph and underlines the need for more effective management of the available staff strength.

We recommend that the Government may consider installing a system of critical review of the deployment of staff, based on the workload at periodic intervals for optimum utilisation of available manpower.

2.11.11 Physical verification of goods vehicles at the check posts

The Public Accounts Committee (PAC) while discussing the review on working of the Sales Tax Check Posts included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 1991 observed in June 1998 that every check-post officer should conduct physical verification of at least 10 *per cent* of the goods vehicles crossing the check-post.

Our scrutiny indicated that despite the observations of the PAC regarding physical verification of minimum 10 *per cent* of the vehicles crossing the check posts, the Government is yet to prescribe any norm to serve as a benchmark for carrying out physical verification at the check posts. Also, we noticed that there was lack of infrastructure like space for halting the trucks and unloading/storage of goods in most of the check posts for carrying out the physical verification of the goods laden vehicles.

[24] Total number of vehicles/1825 (365 days X 5 years)/number of ITs.

From verification of the records of five check posts[25], we observed that 29.69 lakh vehicles[26] crossed the check-posts during 2005-06 to 2009-10. As per the recommendation of the PAC, minimum 2.97 lakh vehicles (being 10 *per cent*) should have been physically verified. However, the concerned officers of these check posts physically verified only 92,347 vehicles as shown in Table 11.

The Taxation Department of Meghalaya has prescribed norms for physical verification of 10 *per cent* of goods vehicles passing through the check posts way back in 1979.

Table 11

Physical verification of goods vehicles at the check posts

Year	Number of vehicles passed through the check post	Men in roll in the test checked five check posts	Vehicles required to be physically verified	Physical verification per IT per day (total vehicles/no of IT/365)	Vehicles physically verified/vehicles per IT per day	Shortfall in physical verification	Percentage of vehicles checked	Percentage of shortfall in physical verification
(1)	(2)	(3)	(4)	(5)	(6)	(7	(8)	(9)
2005-06	606787	34	60679	5	15175/1	45504	2.50	7.50
2006-07	605657	30	60566	6	18703/2	41863	3.09	6.91
2007-08	669615	24	66962	8	28138/3	38824	4.20	5.80
2008-09	725844	21	72584	9	21759/3	50825	3.00	7.00
2009-10	361448	16	36145	6	8572/1	27573	2.37	7.63
Total	**2969351**		**296936**		**92347/2**	**204589**	**3.11**	**6.89**

Source: Figures as furnished by the Department.
Note: The figures at column 2 & 4 for the year 2009-10 are excluding the figures of Boxirhat check post.

Thus, considering the percentage recommended by the PAC which is 10 *per cent* of the total vehicles, each IT was required to physically verify five to nine vehicles per day during 2005-06 to 2009-10 against which they have actually verified one to three vehicles with an average of two vehicles per IT per day. The percentage of vehicles checked ranged between 2.37 and 4.20 *per cent* while the overall percentage of physical verification during these five years stood at 3.11 *per cent* indicating a shortfall of 6.89 *per cent* when viewed against the percentage recommended by the PAC in 1998. Absence of norms prescribed by Government to prevent shortfall in physical verification of goods laden vehicles had direct adverse impact on the ability of the Department in detection of evasion cases as illustrated in subsequent paragraph.

We recommend that the Government may consider issuing formal instructions about the percentage of physical verification of vehicles which may be reviewed periodically, based on the need and provide necessary infrastructure in the check posts in the interest of revenue of the State.

[25] Boxirhat, Churaibari, Damra, Khanapara and Sukhanjan.
[26] Excluding the figures of Boxirhat CP for the year 2009-10.

2.11.12 Detection of cases of tax evasion

The CT vide his circular dated 28 July 1997 has stipulated a target (for detection of evasion of taxes at check posts) of three cases and one case per month for each inspector of taxes posted at the check posts at Boxirhat/Damra and other check posts respectively.

We noticed that though the number of vehicles passing through the check posts have increased manifold since 1997, the target for detection of evasion cases on the ITs have not been reviewed and refixed since then.

Our scrutiny of records of Boxirhat, Damra and Kabaitary check posts revealed that the number of ITs posted in these check posts, ranged from 15 to 22 during the years 2005-06 to 2009-10. As per the target prescribed by the Department, these ITs were to detect 2,833 evasion cases against which they could detect only 1,581 evasion cases and recover tax and penalty of ₹ 6.87 crore as mentioned in Table 12.

Table 12

Detection of cases of tax evasion

Year	Number of Inspector posted in the three check posts	Number of evasion cases to be detected	Number of cases/evasion (in lakh ₹) actually detected	Shortfall (number of cases)	Percentage of short fall
2005-06	22	720	228 105.86	492	68
2006-07	20	648	283 76.09	365	56
2007-08	16	540	362 133.41	178	33
2008-09	15	468	299 169.15	169	36
2009-10	15	457	409 202.84	48	11
Total	**88**	**2,833**	**1,581 687.35**	**1,252**	**44**

Source: Figures as furnished by the Department.

Thus, there was shortfall in detection of evasion cases ranging between 11 and 68 *per cent* while the overall shortfall during the above five years was 44 *per cent.*

We recommend that Department/Government may review the targets set for detection of evasion cases at periodic intervals and install a mechanism for regular monitoring of performance of ITs vis-à-vis the targets fixed.

After we pointed these out, the Government agreed to the observations in paragraphs 2.11.10, 2.11.11 and 2.11.12 and assured us that the recommendations would be looked into. As regards physical verification of

goods vehicles, they stated that despite space and infrastructure crunch, every effort is being made to ensure that physical verification is done in the true sense and not only on paper.

2.11.13 Internal control mechanism

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules, executive instructions etc. Such control is exercised through internal audit, inspection by supervisory officers etc. During the course of our performance audit, we noticed the following deficiencies in the internal control mechanism.

2.11.13.1 Internal audit

Internal audit, a component of the internal control mechanism, functions as eyes and ears of the management and is a vital tool which enables an organisation to assure itself that prescribed systems are functioning reasonably well.

We observed that an internal audit wing was created by the Government in May 1998 with staff strength of eight internal auditors in the office of the CT, Assam. However, it was noticed that no norm was fixed as regards the number of check posts to be audited in an year. Besides, there was no check list for the internal audit wing to serve as guideline while carrying out the audit. We further noticed that only one Senior Auditor was posted in the wing. No internal audit was done during 2005-06 to 2009-10 in any of the check posts covered in the performance audit. Resultantly, the Department could not detect deficiencies noticed by us during this performance audit and consequently could not identify the same and put in place preventive/remedial measures.

We recommend that the internal audit wing may be strengthened and specific targets fixed for carrying out the audit. Also, check lists may be prepared to serve as guidelines for conducting internal audit.

The Government stated that at present the sole auditor has retired and the internal audit wing is practically defunct. They agreed to look into the recommendation and take action accordingly.

2.11.13.2 Inspection by supervisory officers

Inspection of the unit offices by supervisory officers is one of the most important tools of internal control mechanism. This mechanism allows the inspecting officers to check whether the systems and procedures designed by Department/Government are followed in letter and spirit by the inspected unit. This mechanism also allows the field level staff to discuss the problem areas with higher authorities and obtain their guidance.

The Department has not laid down any system / norm / guideline for periodical inspection of the check posts by the higher authorities. We noticed that inspection of the check posts was being done occasionally by the higher

authorities. In the absence of a specific system/ norm/ guideline, we could not ascertain the adequacy of the inspection by the higher authorities.

The Government of Meghalaya has laid down the following norms for inspection of check posts by the supervisory staff:

- Bimonthly inspection by the ST;
- Half yearly inspection by DCT/ACT; and
- Annual inspection by the CT.

We recommend that the Government may consider fixing norms for inspection of check posts by higher authorities.

After we pointed this out, the Government stated that though the extant orders of the Department prescribed supervision of unit offices by supervisory officers, there was no streamlined/laid down procedure for inspection of check posts by supervisory officers. They agreed to look into the recommendation.

Compliance deficiencies

2.11.14 Short levy of penalty

The AVAT Act provides that in a case where a carrier/bailee/person-in-charge of the goods fails to produce any evidence or satisfy the said authority regarding the proper accounting of goods, the officer-in-charge may, after giving a reasonable opportunity to the defaulter of being heard, impose a penalty which shall be equal to three times the amount of tax calculated on the value of such goods and the goods shall be released as soon as the penalty is paid.

We observed that six check posts[27] detected 7,712 evasion cases during 2005-06 to 2009-10. Of these, the assessing officers levied three times penalty in 5,354 cases but in 2,358 cases, the assessing officers of two check posts (Dholaibazar and Sukhanjan) levied lump sum penalty of ₹ 43.16 lakh instead of the prescribed rate of three times. Though initiation of penal action is discretionary, once levy of penalty is confirmed, it cannot be less than three times the tax sought to be evaded. The assessing officers did not also record any reason for levy of penalty at reduced rates in these cases. This resulted in short levy of penalty of ₹ 3.70 crore.

After we pointed this out, the Government while accepting the observation stated that in some cases there were practical difficulties as the truck drivers did not carry enough money with them. The reply is not in conformity with the provisions of the Act.

[27] Boxirhat, Churaibari, Damra, Dholaibazar, Khanapara and Sukhanjan.

2.11.15 Co-ordination between check posts and unit offices

2.11.15.1 Non-detection of evasion of tax

The CT, Assam instructed (6 May 1999) all the assessing officers to examine the claims of interstate sales of the Assam based dealers to other north eastern states with the records of the nearest check post and if necessary cross verify with the concerned state to check evasion of tax. Further, the CT in April 2009 instructed the assessing officers to complete the CST assessments for the years 2005-06 and 2006-07 by 30 September 2009.

We observed that six dealers were allowed exemption/ concession on stock transfer and interstate sale on ₹ 343.17 crore for the period 2005-06 to 2008-09 while completing assessments/ scrutiny of returns between 14 July 2008 and 30 March 2010. However, on cross verification of the records of the check posts at Dholaibazar, Narayanpur and Sukhanjan, we found that goods worth ₹ 26.26 crore did not cross the concerned check posts. As all relevant information relating to check posts was available in the unit offices through TIMS, the assessing officers could have verified the particulars of the check posts which would have enabled detection of evasion of tax of ₹ 3.90 crore. In addition to tax, interest of ₹ 2.36 crore and penalty not exceeding ₹ 7.80 crore were also leviable.

After we pointed this out, the Government while agreeing to the observation stated that to avoid these situations, a new module in the TIMS software has been proposed where the transporters would enter the data at the first instance. But the success of this module is yet to be tested as only four transporters have since registered themselves and moreover they have not yet started feeding data into the server.

2.11.15.2 Evasion of tax due to concealment of turnover

The AVAT Act provides that if a dealer conceals the particulars of his turnover he shall pay by way of penalty in addition to tax, interest, a sum not exceeding double the amount of tax sought to be evaded.

The assessing officers are required to verify the information available with them with the particulars of the returns of the dealers while finalising the assessments. After introduction of the TIMS, the information of the check posts are available in the unit offices online which can be consulted while finalizing the assessments/ completing scrutiny of the returns.

Our scrutiny of the records of the Assistant Commissioners of Taxes, Guwahati, Units – A, B & C revealed that three dealers registered under these units disclosed ₹ 28.04 crore as the value of purchase/ receipt of goods from outside Assam during 2006-07 and 2007-08. The assessing officers also accepted the same while completing the assessments/scrutiny of returns between 6 June 2008 and 23 March 2009. However, cross verification in audit with TIMS revealed that the dealers had actually brought in goods worth ₹ 76.06 crore. Thus, the dealers suppressed taxable purchase/ turnover of at least ₹ 48.02 crore and evaded minimum tax of ₹ 1.89 crore. In addition to tax, interest of ₹ 1.01 crore and penalty not exceeding ₹ 3.78 crore were also leviable. Details are shown in Table 13.

Table 13

Evasion of tax due to concealment of turnover

Name of dealer/unit/TIN/ Items dealt in	Assessment year/date of assessment/scrutiny	Value of goods received – as per TIMS/as per return	Excess in TIMS	Tax/interest/ penalty on suppressed turnover
		(₹ in crore)		
M/s Rajat Enterprise/ Unit B /18660034896/ coir &coir products, furnishing items.	2007-08 16-6-2008 (Scrutiny)	38.84 14.98	23.86	0.95 0.50 1.90
M/S Kirloskor Oil Engine Ltd/Unit C/ 18210031894/diesel oil engine etc	2007-08 23-3-2009 (Assessment)	36.52 12.95	23.57	0.92 0.49 1.84
M/S India Carbon Ltd /unit A/ 8680024991/CPC, Electrode, carbone etc.,	2006-07 27-1-2009 (Assessment)	0.70 0.11	0.59	0.02 0.02 0.04
Total		**76.06** **28.04**	**48.02**	**1.89** **1.01** **3.78**

We recommend that the Government may consider issuing instructions making it mandatory for the assessing officers to consult the information available in the TIMS database before finalising the assessments/scrutiny of returns.

2.11.15.3 Non-reconciliation of delivery notes

The AVAT Act provides that no person shall transport goods across or beyond a check post except after filing before the officer-in-charge of the check post, a declaration in Form 61 (delivery note). The officer-in-charge of the check post is required to send one copy of the delivery note to the assessing officer of the respective unit where the consignor or consignee has his place of his business in the state for checking the particulars furnished in the delivery notes with reference to the accounts/records of the consignor/ consignee.

In order to verify the working of the system of receipt of delivery notes in the unit offices and their proper accounting, we took up Damra check post and cross verified the information with the unit offices. We noticed that there were discrepancies between the number of delivery notes sent by the check post and those received by the unit offices as mentioned in Table 14.

Table 14

Non-receipt of delivery notes at the unit offices

(₹ in crore)

Amount of delivery notes sent	Period during which sent	Name of unit office to which sent	Amount of delivery notes received	Difference
8,453.32	2006-07 to 2008-09	Guwahati Unit 'A', 'B', 'C' and Silchar	Nil	8,453.32
898.04	Do	Goalpara and Guwahati Unit 'D'	3,267.57	2,369.53
902.75	Do	Barpeta Road, Dibrugarh, Diphu and Tezpur	Nil	902.75

We are, therefore, of the opinion that the purpose of sending delivery notes to unit offices could have served fully and possible loss of revenue due to non-receipt/accounting of these delivery notes averted, if the above discrepancies/ deficiencies were avoided through regular reconciliation of the position of delivery notes. This should be possible with TIMS in place now. Besides, in absence of the delivery notes, neither the Department nor audit was in a position to verify the correctness of returns of the dealers.

After we pointed this out, the Government accepted the observation and agreed to look into the cases in detail.

2.11.16 Revenue remaining out of Government accounts

Check posts collect security money, tax, penalty and send to the respective unit offices by post in the form of bank draft. The CT instructed (30 August 2008) the check post authorities to deposit tax, penalty and/or security in local designated banks observing that there was strong likelihood of loss of or late delivery of such bank drafts to the concerned units.

We observed that two check posts (Damra and Sukhanjan) did not deposit bank drafts valued at ₹ 10.15 crore[28] collected between September 2008 and March 2010 in the local designated banks but forwarded these to the concerned unit offices in violation of the CT's instruction.

We verified the records of Damra check post and compared the same with those in the unit offices covered in this performance audit and found that there were significant discrepancies and instances of non-receipt of bank drafts in unit offices as mentioned in Table 15.

Table 15

Revenue remaining out of Government accounts

Sl No.	No of bank drafts Amount involved (₹ in crore)	Sent during	Sent to	Status	
				Received	No of draft
				No of draft Amount (₹ in crore)	Amount (₹ in crore) remaining out of Government accounts
1.	611 0.30	2005-06 to 2009-10	Guwahati Unit –C, D and Silchar	Nil	611 0.30
2.	2855 3.70	Do	Barpeta Road, Guwahati unit- A, B, Jorhat and Tezpur	1783 2.01	1072 1.69
3.	1127 0.80	2005-06 and 2006-07	Guwahati unit- B and Tezpur	The concerned units did not have any information about receipt of the drafts.	1127 0.80
4.	255 0.21	2005-06 to 2009-10	Dibrugarh and Diphu		225 0.21

Thus, receipt of 3,035 bank drafts involving revenue of ₹ 3 crore could not be traced in the unit offices resulting in revenue to that extent remaining out of Government accounts, reasons for which need to be investigated by the Department.

We also observed that the check posts did not carry out regular reconciliation of the bank drafts deposited with the banks. There was thus, no assurance whether the amounts deposited into the banks were credited to the Government account.

[28] Damra = ₹ 9.74 crore and Sukhanjan = ₹ 41.78 lakh.

We recommend that the Department instruct the check posts to strictly follow the prescribed mechanism for depositing demand drafts and receipts in designated banks and the unit offices to carry out regular reconciliation of bank drafts deposited with bank scrolls.

After we pointed this out, the Government stated that the cases would be checked and reconciled.

2.11.17 Short realisation due to application of lower rate of tax

The AVAT Act stipulates that if the owner, driver or person-in-charge of the vehicle or the transporter fails to submit TP with endorsement in time without any reasonable cause, the entry check post authority who issued the TP, may after giving the person concerned a reasonable opportunity of being heard, impose upon him, in addition to tax at the prescribed rate, penalty equal to three times the tax.

During scrutiny of the records of Boxirhat check post, we noticed that two transporters (M/s Glovis India Pvt Ltd, Guwahati and M/s Delhi Assam Road Ways Corporation Ltd, Guwahati) were assessed {under section 76 (6) of the AVAT Act} for the period ending 31 December 2008 and 30 September 2009 respectively for non-submission of TPs in time. However, we observed that the assessing officer levied tax at the rate of four *per cent* on turnover of ₹ 45.17 lakh though the turnover was relating to motor parts, footwear (leather) and lubricants which were taxable at 12.5 *per cent*. This resulted in short levy of tax of ₹ 3.84 lakh. Besides, penalty of ₹ 11.52 lakh was also leviable which was not levied.

After we pointed this out, the Government stated that of the two dealers, one had gone in appeal while in the other case involving tax of ₹ 3.37 lakh the TPs were endorsed by the exit check posts which were accepted by the appellate authority.

Other areas of interest

2.11.18 Infrastructure development in the check post

During the course of the performance audit, we observed that the Government had spent an amount of ₹ 37.32 crore for development of infrastructure (broadening of roads to ease passage of vehicles, construction of yards for unloading and loading of vehicles) of Damra check post (one of the two entry check posts) during the years 2006-07 to 2009-10.

We noticed that the traffic intensity of Boxirhat check post was much more than at Damra check post. During the period 2005-06 to 2009-10, 16.42 lakh vehicles entered through Boxirhat check post whereas during the same period

9.65 lakh vehicles entered through Damra check post. Further, during the aforesaid period 851 cases of evasion of tax were detected in Boxirhat check post and revenue of ₹ 5.38 crore was collected while 730 similar cases were detected in Damra check post from which revenue of ₹ 1.50 crore was realised. However, we observed that though the Department had planned for improvement of infrastructure in Boxirhat check post and ₹ 6 crore was sanctioned in 2008 by the Government for acquisition of land, they could not proceed as Guwahati High Court has issued a stay order on petitions filed by land owners against land acquisition.

As the goods vehicles have the option to enter Assam through either check posts, we feel that until and unless the infrastructure at Boxirhat is developed and upgraded, without delay, it is likely that the traffic of goods vehicles may keep avoiding Damra check post and clog/overburden the less equipped Boxirhat check post. This would lead to increased stress on the ITs at Boxirhat check post and possible laxity in enforcing required checks thereby hampering proper recording of vehicles and prevention of evasion of tax as pointed out in paragraph 2.11.7.4.

2.11.19 Ineffective functioning of check post

The core purpose of erection of check post is to monitor the movement of goods and prevent evasion of taxes. The check post authorities are empowered to inspect all records relating to the goods/physically verify the goods carried in a vehicle. They are also bound to capture all the information about movement of goods into and out of the State.

During verification of the records of the check post at Khanapara[29] we observed that the Khanapara check post could not furnish any information about movement of goods as they did not have any barrier in the check post. No outgoing vehicles were stopped in the check post neither was any gate pass issued to the outgoing goods vehicles.

After we pointed this out, the Government stated that it is very difficult to put barrier in Khanapara as the check post is functioning at the tri-junction at Jorabat.

Looking at the importance of the check post at Khanapara, we recommend that the Government may take remedial measures to ensure that the check post starts functioning in the desirable manner.

[29] Exit to Meghalaya – and also leads to Mizoram and Tripura.

2.11.20 Entry of goods by Railways – monitoring thereof

Goods enter into/exit from the State of Assam mainly through road and rail. Though the maximum volume of goods enter/ exit the State through road, a considerable volume of goods is also carried by the Railways.

We observed that though the Department has erected check posts at the major entry/exit points of the State by road, they are yet to create check posts at the entry/exit point of the State by rail. We also noticed that after introduction of TIMS, information of the check posts is available in the CT/unit offices. Though the dealers are required to submit a declaration in form 61 in respect of entry/exit of goods through Railways, there is no system of uploading this information in TIMS. Consequently, there is no tool in the hands of the assessing officers to obtain the actual position of turnover involved in the consignments entering/exiting the State through Railways, which is a major concern.

After we pointed this out, the Government stated that there are two check posts for this purpose at Bongaigaon yard and Paltanbazar. However, they agreed that goods brought in through Railways are not entered in the TIMS and the Department is trying to sort out the issue. Though the Government has mentioned that there are two railway check posts, we observed that these were being functioning as internal arrangement without any Government notification.

We recommend that the Department may consider installing a regular system of obtaining information from the Railways about goods entering/exiting the State and map it with TIMS so that the information can be usefully considered at the time of finalising assessments/scrutiny of the returns.

2.11.21 Conclusion

While the total revenue collection of the Department increased consistently during the period 2005-06 to 2009-10, revenue collected at check posts registered a fall except during 2009-10. The percentage of physical verification and detection of evasion cases in check posts was low and needs to be increased by prescribing specific targets in line with the recommendations of the PAC. Due to the absence of proper control over movement of goods laden vehicles through check posts, instances of plying of vehicles without their being entered in the database of the check posts and registration of goods at values lesser than that imported by the dealers were noticed. These deficiencies in check posts left the assessing officers with no alternative but to accept the turnover returned by the dealers without further cross verification. Though more than 15 *per cent* of the goods laden trucks carrying goods meant for other States did not cross the exit check posts, the

Department could not detect them due to the absence of a system of regular verification of database of TPs, leading to loss of revenue. Increased and regular coordination between check posts and unit offices would ensure detection of cases of evasion of tax, non-receipt of delivery notes/bank drafts etc. Though the Department has implemented TIMS and all information regarding check posts is available with the CT/unit offices, the Department is yet to install a system for generating periodic reports from TIMS database for review and monitoring by higher officers. This would enable the assessing officers to also extract information from TIMS while finalising the assessments/scrutiny of the returns, which was not being done now. Information relating to the goods entering/exiting the State through Railways needs to be mapped into the TIMS database to enable the assessing officers to get the true and fair picture of the turnover of the dealer. Internal controls need to be strengthened as we observed absence of internal audit and a system for periodical inspection by supervisory officers.

2.11.22 Summary of recommendations

The Government/Department may consider implementing our recommendations included under respective paragraphs in the performance audit with special emphasis on the following, in order to derive the optimum benefit of the check post mechanism in augmenting of and preventing leakage in revenue:

- fixing specific targets for financial achievement and physical verification in all check posts and monitor their achievements;
- issuing specific instruction for verification of the transit documents of each and every vehicle passing through the check posts and take up cross verification of the database of the exit check posts of other States through intelligence wing and flying squads;
- installing a system of periodic review of the database of the TPs at check posts and generating reports from TIMS at the CT's office for monitoring;
- strengthening the internal control mechanism by (i) revamping the internal audit wing and preparing check lists for its effective functioning; and (ii) fixing specific norms for inspection of check posts by the higher authorities; and
- making it mandatory for assessing officers to consult the information available in TIMS database before finalising the assessments/scrutiny of the returns.

2.12 Utilisation of declaration forms in inter-state trade and commerce

Highlights

Incorrect grant of concession/exemption against C/F forms issued in the name of other dealers resulted in non/short levy of tax and interest of ₹ 1.55 crore.

(Paragraph 2.12.9.1)

Evasion of tax by fraudulent utilisation of fake/obsolete forms resulted in short levy of tax and interest of ₹ 6.43 lakh.

(Paragraph 2.12.9.2)

Variation between the figures of the forms as disclosed by the issuing dealers and those disclosed by the utilising dealers resulted in short levy of tax and interest of ₹ 50.21 lakh.

(Paragraph 2.12.9.3)

Irregular allowance of concessional rate of tax against inter-state sale to un-registered dealers resulted in short levy of tax of ₹ 74.23 lakh.

(Paragraph 2.12.9.4)

2.12.1 Introduction

Under the Central Sales Tax Act, 1956 (CST Act), registered dealers are entitled to certain concessions and exemptions from levy of tax on inter State transactions on submission of prescribed declaration forms 'C' and 'F'. The State Governments grant such incentives to dealers for furtherance of trade and commerce, on production of prescribed declaration forms. It is the responsibility of the Sales Tax Department to ensure proper accounting of declaration forms and to put in place adequate safeguards to prevent misutilisation of declaration forms/certificates on which tax relief is allowed involving large amount of revenue otherwise due to the State exchequer.

Form 'C'

Under the provision of the CST Act, every dealer, who, in the course of inter State trade or commerce, sells to a registered dealer, goods of classes specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent* (three *per cent* w.e.f. 1.4.2007 and two *per cent* w.e.f. 1.6.2008) of such turnover provided such sales are supported by declarations in form 'C'. Otherwise, tax is leviable at the rate of 10 *per cent* or the local rate of tax, whichever is higher. From 1.4.2007, inter state sales not supported by declaration forms are to be taxed at the local rate of tax of the respective goods.

Form 'F'

Under Section 6A of the CST Act as amended in 1972, transfer of goods not by reason of sales by a registered dealer to any other place of business outside the State or to his agent or principal in other states is exempt from tax on production of declaration in form 'F', duly filled in and signed by the principal officer of the other place of business or his agent or principal, as the case may be, along with the evidence of dispatch of such goods. Filing of declaration in form 'F' was not mandatory upto May 2002. However, the Act provided for the assessing authority to make such enquiries as is deemed necessary to satisfy himself about the bonafides of the transfer such as sale *patties*, dispatch particulars, way bills etc.

A performance audit on "Utilisation of declaration forms in inter-state trade and commerce" was taken up to ascertain the extent of efficiency and effectiveness of the system of custody and issue of declaration forms, ensuring genuineness of the declaration forms accepted by the taxation authority while allowing the concession/exemption, proper accounting of goods imported by usage of declaration forms, lacunae and loopholes in the implementation of the Act/Rules etc. The audit revealed a number of system and other deficiencies which are discussed in the succeeding paragraphs.

2.12.2 Organisational set up

The Finance (Taxation) Department is responsible for administration of central sales tax in the State. The Principal Secretary, Finance (Taxation) is the overall in-charge of the Department at the Government level. Commissioner of Taxes (CT) is head of the Department. He is assisted by two Additional Commissioners of Taxes and five Joint Commissioners of Taxes at the Headquarters (apex office). The State is divided into 10 taxation zones and each zone is headed by a Deputy Commissioner of Taxes (DCT). There are five DCsT (Appeals) in charge of the appellate offices located in various places of the State. There are 36 unit offices (including two check posts) and 23 recovery offices in the State. The Assistant Commissioners of Taxes (ACT)/Superintendents of Taxes are responsible for registration, assessment and realisation of dues under the CST Act.

2.12.3 Audit objectives

The performance audit aimed to ascertain whether:

- there exists a foolproof system for custody and issue of the declaration forms;
- exemption/concession of tax granted by assessing authorities were supported by valid declaration forms;
- there is an effective system of ascertaining the genuineness of such forms for preventing evasion of tax;
- the details of declaration forms issued/utilised are uploaded on the TINXSYS website and utilised by the assessing authorities during scrutiny of returns/finalising assessments;

- appropriate steps are taken on detection of fake, invalid and defective (without proper and insufficient details) forms; and
- the internal control mechanism for preventing leakage of revenue is effective and adequate.

2.12.4 Scope and methodology of audit

The performance audit on 'Utilisation of declaration forms in inter-state trade and commerce' was conducted between November 2010 and August 2011 covering three sales tax unit offices and one assessment check post[30] and assessments finalised during the period from 2007-08 to 2009-10. The scope of audit was limited to C and F forms only. Cases noticed during regular audit of other units have also been included. Besides, declaration forms issued by the Department were cross verified on a sample basis in all the three sales tax unit offices and one assessment check post in a phased[31] manner. The system of printing, custody, issue and utilisation of declaration forms, feeding of information for TINXSYS was also scrutinised from the apex to the unit offices level and the results thereof have been incorporated in the performance audit.

2.12.5 Acknowledgement

We acknowledge the co-operation of the Taxation Department in providing necessary information and records. Before taking up the performance audit, an entry conference was held in November 2010 to explain the scope, methodology and objectives of the performance audit which was attended by the Secretary (Finance) cum Commissioner of Taxes, Assam and Joint Commissioner of Taxes. The draft performance audit report was forwarded to the Government/Department in September 2011 and was discussed in the exit conference held in November 2011. The Secretary, Finance (Taxation) represented the Government and the Department was represented by the Commissioner of Taxes. The views of the Government/Department have been included in the relevant paragraphs.

Audit findings

2.12.6 Printing, custody, issue and utilisation of declaration forms

The statutory forms are obtained by the Commissioner of Taxes (CT), Assam from a security printing press located outside the State and supplied to the units on requisition.

[30] Dibrugarh, Guwahati Unit-A, Jorhat and Jalukbari check post.

[31] Phase-I: Collection of particulars of forms/data from assessment case records of various unit offices/check post, Phase-II: Exchange of particulars of forms/data with other states and verification of declaration forms received from other states through assessment records and TINXSYS and Phase-III: further scrutiny of dealers' records in unit offices based on the information received from other states.

Receipt and issue

The receipt and issue of the aforesaid declaration forms are accounted for in separate stock registers by the unit offices indicating receipt and issue of the various declaration forms. When the forms are issued to the dealer, the signature of the dealer as token of receipt is to be obtained in the register.

Every registered dealer to whom any declaration form is issued by the appropriate authority shall maintain complete account of every such form. The dealer has to furnish utilisation certificate to the competent authority showing the name of the dealer to whom the form is issued, bill number and date and description of goods with value.

2.12.6.1 Position of statutory forms printed and issued during the period 2007-08 to 2009-10

The Department was required to review the existing stock vis-à-vis probable requirement of declaration forms before proceeding for printing of forms.

Forms are kept in the Commissionerate under the supervision of a Joint Commissioner of Taxes. The position of forms printed, issued and the closing stock as on 31 March 2010 was as mentioned in Table 16 below:

Table 16

Printing, issue and stock of declaration forms

Year	Type of declaration form	Opening stock	Receipt	Issue	Closing stock
			(in number of books[32])		
2007-08	Form-C	3,291	1,000	4,085	206
2008-09		206	9,000	4,790	4,416
2009-10		4,416	5,000	4,405	5,011
2007-08	Form-F	4,890	Nil	211	4,679
2008-09		4,679	Nil	210	4,469
2009-10		4,469	Nil	210	4,259

Source: CT, Assam

As can be seen from the above table, only 631 books of 'F' forms were issued during the period 2007-08 to 2009-10, out of the opening balance of 4,890 books while there was a closing balance of 4,259 books. After introduction of the Value Added Tax (VAT), phasing out of CST began with effect from 1 April 2007 with reduction in rate of tax on inter-State sale from four to three *per cent* (April 2007) and three to two *per cent* (June 2008). As the average annual issue of 'F' forms during the last three years was 210 books, it appears that it would take a very long time to exhaust the closing balance of 'F' forms.

[32] Each book of 'C' and 'F' forms contains 25 and 100 leaves respectively.

2.12.6.2 Issue and accounting of declaration forms

We noticed instances of non-compliance by the assessing authorities with the prescribed procedures like examining the utilisation statements of declaration forms during scrutiny of returns/finalising assessments, scrutinising the declaration forms to ascertain their genuineness etc., resulting in short levy/realisation of tax which are mentioned in succeeding paragraphs.

2.12.7 Absence of mechanism for cross verification of forms

The TINXSYS website has been designed to help the Sales Tax departments of various States and union territories to effectively monitor the inter-state trade. It contains information on declaration forms issued/utilised by dealers of each State. TINXSYS can be used by the assessing authorities to verify the central statutory forms issued by Sales Tax Departments of other states and submitted to them by dealers in support of claim for exemptions/concessions.

The CT, Assam directed (May 2000) that all assessing authorities should finalise the CST assessments after proper cross verification of data/information.

We observed that despite the directives of the CT issued way back in May 2000, the Department had not installed any system for monitoring compliance of the above order by assessing authorities. Neither was any mechanism put in place to install a system of cross verification of declaration forms at regular intervals nor was check list of points to be verified by assessing authorities while accepting declaration forms notified.

Though introduction of TINXSYS has increased the scope of cross verification of data in respect of declaration forms of other States, we noticed that none of the assessing authorities of the test checked unit offices verified the information available on TINXSYS website prior to allowing exemption/concession. These deficiencies resulted in irregular allowance of exemptions/concession on branch transfer/inter-State sale leading to non/short levy of tax and interest as shown in subsequent paragraphs.

During the exit conference, the Government stated that instructions had already been issued to the assessing officers to verify the data of the declaration forms with the information available in the TINXSYS. They also stated that a Joint Commissioner level officer has been nominated as the nodal officer for overseeing the aspect of cross verification of declaration forms.

2.12.8 Enforcement measures

We observed that the Taxation Department had not constituted any enforcement/inter-state investigation wing to investigate cases of suspected fake/invalid declaration forms. Absence of a centralised system of cross

verification of declaration forms as mentioned earlier further made it difficult for the Department to effectively tackle cases of irregular claims of exemptions/concessional rate of taxes by using invalid/obsolete/fake declaration forms.

The Department has also not put in place a system of blacklisting the dealers who have been found utilising invalid/fake declaration forms and displaying their names and other details in the official website. This would alert the assessing authorities of Assam and other states before taking up scrutiny of returns/assessments relating to purchase/sale involving these dealers.

2.12.9 Cross verification of declaration forms

We verified 637 declaration forms with the concerned States and found 102 instances (16.01 *per cent*) of (i) variation between the figures of the issuing and selling dealers, (ii) acceptance of forms not issued to the purchasing dealers, (iii) use of fake declaration forms etc., which resulted in non/short levy of tax of ₹ 3.06 crore including interest. The details are given below:

2.12.9.1 Incorrect grant of concession/exemption against 'C/F' forms issued in the name of other dealers

Ten dealers of Assam made inter-state sales/stock transfer of goods valued at ₹ 9.30 crore to 10 dealers of five States[33] and claimed exemption/concessional rate of tax on the basis of 33 'C/F' forms.

Our verification of the records of the purchasing dealers in the concerned States revealed that these forms were not issued to those dealers by the sales tax authorities of the respective states. Thus, the allowance of concessional rate of tax/exemption against the said C/F forms was incorrect. This resulted in short levy/non-levy of tax and interest of ₹ 1.55 crore.

During the exit conference the Government, while accepting our observation, stated that the matter has been taken up with the Commissioner of Taxes of the respective States from where the forms were issued for confirmation of the authenticity of dealers and declaration forms. We have not received further information in this regard.

2.12.9.2 Evasion of tax by fraudulent utilisation of fake/obsolete forms

We found that four 'C/F' forms received from the States of Maharashtra (three cases) and Nagaland (one case) against which three dealers of Assam claimed inter-state sales/stock transfer of goods were found to be fake/obsolete. Thus the benefit of concessional rate of tax/exemption against the said 'C/F' forms was allowed incorrectly resulting in non/short levy of tax and interest of ₹ 6.43 lakh as shown in **Annexure-II**.

[33] Arunachal Pradesh, Delhi, Maharashtra, Meghalaya and West Bengal.

During the exit conference, the Government while accepting our observation stated that the concerned sales tax authorities of the purchasing states had been approached to confirm the observation for re-opening of the assessments. We have not received further information in this regard.

2.12.9.3 Variation between the figures of the forms as disclosed by issuing dealers and those disclosed by utilising dealers

Fourteen dealers of Assam claimed exemption/concessional rate of tax on branch transfers/inter-State sales to 24 dealers of six States[34] against one 'F' form and 36 'C' forms on goods valued at ₹ 5.58 crore. Cross-verification of the records of the purchasing dealers revealed that those dealers had actually issued forms valued at ₹ 2.36 crore. Thus, there was variation of ₹ 3.22 crore between the figures of declaration forms as disclosed by the issuing dealers and those disclosed by the selling dealers. This not only indicates that the selling dealers of Assam had claimed concessional rate of tax on the turnover in excess of actual inter-state sales, but also points towards tampering of figures in the declaration forms. This resulted in short levy of tax and interest of ₹ 50.21 lakh.

During the exit conference, the Government stated that in most of the cases, the objections related to the dealers of north eastern states in which the status of uploading of declaration forms in the TINXSYS was not at all satisfactory. Therefore verification of the authenticity of the forms was difficult.

2.12.9.4 Irregular allowance of concessional rate of tax against inter-state sale to unregistered dealers

On cross verification of 'C' forms with the Commercial Tax Departments of the issuing states, we found that in 24 cases, 14 dealers of three states[35] to whom goods of ₹ 4.88 crore were sold by six dealers of Assam, were found either unregistered in the respective state or the goods purchased were not covered by the registration certificate. Thus, the benefit of concessional rates of tax on sales to unregistered dealers or on sales not covered by registration certificate was incorrectly allowed resulting in short levy of tax and interest of ₹ 74.23 lakh.

We recommend that the Government may consider making verification of declaration forms mandatory while allowing concession/exemption based on the information available on the TINXSYS website.

[34] Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Nagaland and Tripura.
[35] Arunachal Pradesh, Bihar and Meghalaya.

2.12.10 Concealment of purchase turnover due to non-verification of utilisation of declaration forms

Dealers have to submit the utilisation statement of declaration forms issued earlier while applying for issue of fresh declaration forms. Such utilisation statements are to be maintained in the case records for verification at the time of scrutiny of returns/assessments by the assessing authorities.

After introduction of TINXSYS website, details of the utilisation statements so obtained from the dealers are also to be uploaded in the website to ensure cross verification of details by the assessing authorities of other states where the selling dealer resides.

We observed that scrutiny of returns/assessments was being done purely on the basis of the returns submitted by the purchasing dealers without checking the utilisation statements. This violates the system put in place by the Department for ensuring such verification and also results in non/short levy of local tax as noticed by us in a number of cases.

We noticed that 18 dealers disclosed turnover of ₹ 241.62 crore in their annual returns for various periods falling between 2005-06 and 2008-09 which were accepted by assessing authorities during scrutiny of returns/assessments. Our verification of the statements of the declaration forms utilised by these 18 dealers revealed that they had actually purchased goods worth ₹ 260.36 crore. Thus, there was concealment of purchase turnover of ₹ 18.74 crore which the assessing authorities could have detected if they had verified the utilisation statements. This resulted in short levy of tax and interest of ₹ 2.46 crore.

We recommend that the Government makes it mandatory for dealers to furnish the utilisation statements of declaration forms while submitting their returns and for the assessing authorities to verify the same while scrutinising returns/finalising assessments.

2.12.11 Incorrect allowance of concession/exemption

We noticed that the assessing authorities allowed incorrect exemption/ concessional rate of tax without declaration forms/based on declaration forms which were 'prima facie' defective/not properly filled in. This resulted in incorrect allowance of exemptions/concessions of tax of ₹ 38.12 crore including interest in respect of 126 cases for the assessment years falling between 2001-02 and 2008-09 as mentioned in Table 17:

Table 17
Irregular allowance of concession/exemption

(₹ in crore)

Name of the unit (No. of dealer)	Period of assessment Assessed between	Nature of irregularities	Short/non-levy of tax and interest
Digboi (2) Ghy Unit-C (18) Sibsagar (1) Jorhat (1) Ghy Unit-B (5) Ghy Unit-A (13) Tinsukia (1) Dibrugarh (3)	2001-02 to 2008-09 March/07 and March/10	Concessional rate of tax was allowed on inter-state sale of ₹ 52.21 crore against defective 'C' forms i.e. without proper or insufficient details of the purchasing dealers.	6.56
Tinsukia(1) Dibrugarh (1) Ghy Unit-B (4) Ghy Unit-A (3)	2005-06 to 2007-08 October/07 and March/10	Concessional rate of tax was allowed on inter-state sale of ₹ 3.74 crore without supporting 'C' forms.	0.37
Ghy Unit-C (2) Ghy Unit-A (5) Tinsukia (2) Jorhat (1) Naharkatia (1)	2004-05 to 2007-08 June/07 and February/08	Concessional rate of tax was allowed on inter-state sale of ₹ 5.21 crore which took place prior to date of registration of the purchasing dealers.	0.61
Ghy Unit-B (1) Ghy Unit-C (3) Tinsukia (1)	2005-06 to 2008-09 January/09 and February/10	Concessional rate of tax was allowed on inter-state sale of ₹ 74 lakh against 'C/F' form which were declared[36] invalid/ obsolete by the Government of Nagaland.	0.08
Ghy Unit-A (2) Digboi (1) Ghy Unit-C (1) Sibsagar (2) Jorhat (1)	2004-05 to 2008-09 December/07 and March/10	The claim of branch transfer of goods valued at ₹ 42.86 crore was allowed without form 'F'.	7.06
Ghy Unit-C (1) Digboi (1) Sibsagar (2) Jorhat (4) Ghy Unit-A (4) Ghy Unit-B (1) Tinsukia (3) Naharkatia (2) Dibrugarh (5)	2005-06 to 2007-08 April/08 and August/10	The claim of branch transfer of goods valued at ₹ 65.63 crore was allowed against defective form 'F' i.e. without proper or insufficient details of the transferee/amount involved etc.	9.72
Ghy Unit-B (1) Digboi (3) Sibsagar (6) Tinsukia (2) Naharkatia (4) Dibrugarh (5)	2005-06 to 2007-08 October/07 and March/10	The claim of branch transfer of goods valued at ₹ 89.07 crore was allowed against form 'F' which contained the transaction of multiple[37] months.	13.72
		Total	**38.12**

[36] The CT, Nagaland in his letter of February 2002 intimated the CT, Assam regarding the cancellation of a series of declarations in form'C'with effect from 11 June 2001.

[37] As per the CST Act, one declaration form 'F' would contain transaction pertaining to one calendar month.

Other audit findings

2.12.12 Non-completion of CST assessments

The CST (R&T) Amendment Rules, 2005 (effective from October 2005) provides that the declarations in form 'C' shall be furnished to the prescribed authority within three months after the end of the period to which the declaration or the certificate relates. Further, the CT, Assam vide Circular[1] directed (April 2007) all the assessing authorities to complete all assessments relating to pre-VAT periods (upto May 2005) within 31 May 2007. In respect of the CST assessments for the years 2005-06 and 2006-07, all assessing authorities were directed (September 2009) by the CT, Assam to complete the assessments by 30 September 2009.

Scrutiny of records of three unit offices[38] revealed that despite the repeated orders of CT, the assessing authorities did not complete the assessments under the CST Act of 10 dealers having turnover of ₹ 496.89 crore involving tax effect of ₹ 126.82 crore pertaining to 2005-06 and 2006-07 till the date of audit.

Secondly, we observed that the CT, Assam vide circular[39] instructed (April 2008) the assessing authorities that as regards CST returns, dealers should be asked to produce statutory forms at the time of scrutiny. Thus, the circular of CT, Assam gave the benefit of extension of time beyond three months provided under CST (R&T) Rules. Such benefit cannot be extended through a circular of CT as the time limit is statutorily provided in the Central Rules.

The Government may consider taking appropriate steps to ensure finalisation of CST assessments within the prescribed time limit.

[38] Guwahati Unit 'A', 'B' and Jorhat.
[39] No. 11/2008 issued under memo no. CTS-81/2007/235 dated 24 April 2008.

2.12.13 Irregular grant of exemption

[Assistant Commissioner/Superintendents of Taxes, Guwahati Unit – D, Dhekiajuli, Golaghat, Hailakandi, Mongoldoi and Silchar; between October 2008 and September 2010]

The CST Act provides that when a dealer claims exemption of tax in respect of any goods by reason of transfer of such goods to any other place of his business out of the State, he may furnish to the assessing authorities a valid declaration in Form 'F' duly filled in and signed by the transferee along with evidence of despatch of such goods failing which tax at the prescribed rate is to be charged. Differential tax and interest on the unpaid amount of tax at the prescribed rate is leviable in case of failure to furnish 'F' forms alongwith other proof of despatch of goods. One Form 'F' may cover the transactions of one calendar month. Furnishing of Form 'F' is mandatory with effect from 11 May 2002.

We observed that the assessing authorities while assessing seven cases in five unit offices for the years 2003-04 to 2007-08 between March 2007 and March 2010 allowed irregular exemption on account of branch transfer of goods valued at ₹ 21.25 crore resulting in non-levy of tax amounting to ₹ 1.95 crore and interest of ₹ 1.76 crore as mentioned in the Table 18.

Table 18
Irregular grant of exemption

Sl. No	Name of unit Number of dealers	Period of assessment Assessed/Re-assessed between	Turnover exempted incorrectly (₹ in lakh)	Nature of irregularity	Tax interest (₹ in lakh)
1.	Guwahati, Unit D One (M/s Pavetone Agency)	2005-06 October 2008	27.14	Scrutiny revealed that four Forms 'F' covering transaction of ₹ 27.14 lakh were invalid with effect from June 2001 as intimated by the Commissioner of Taxes, Nagaland to Commissioner of Taxes, Assam, which the AO failed to notice and tax the turnover accordingly.	3.39 2.85
After we pointed this out, the Department stated that the assessment of M/s Pavetone Agency Private Limted was revised and demand notice was issued by levying tax cum interest of ₹ 6.75 lakh.					
2.	Hailakandi One (M/s Lalamukh tea Estate)	2004-05 and 2005-06 August 2007	164.55	Scrutiny revealed that 48 declaration Forms 'F' involving goods valued at ₹ 16.16 crore (out of ₹ 35.18 crore) covered one calendar month and beyond. Transaction for 1st calendar month was ₹ 6.21 crore. Thus, transaction beyond one calendar month totaling ₹ 9.95 crore was liable to be taxed, which was not done.	16.45 18.44
	Mangaldoi One (M/s Dhansiri Tea Estate)	2007-08 March 2010	299.38		11.98 5.75
	Dhekiajuli One (M/s Panbari Tea Estate)	2005-06 March 2008	381.82		38.18 32.65

	Silchar One (M/s Kalline Tea Estate)	2004-05 February 2008	89.39		8.94 12.34
After we pointed this out, the Department stated that it was a technical mistake. The reply was not acceptable as one Form 'F' should cover the transactions of one calendar month accordingly to the CST Act and Rules made thereunder.					
3.	Golaghat One (M/s Khumtai Tea Estate)	2005-06 March 2007	1100.00	Goods worth ₹ 13.52 crore were transferred to other States by the dealer. Scrutiny revealed that out of the above amount, turnover of ₹ 2.52 crore only was supported by forms 'F'. Thus, tax was leviable on goods valued at ₹ 11 crore transferred outside the State and not supported by valid forms 'F', which was not done.	110.00 94.06
After we pointed this out, the Department stated that permission for rectification of original assessment has been sought from the Commissioner of Taxes. Confirmation of rectification is awaited.					
4.	Hailakandi One (M/s Chandyapur Tea Estate)	2003-04 and 2004-05 March 2007 and March 2008	62.44	The AO allowed exemption of goods worth ₹ 62.44 lakh as stock transfer, which was not supported by Form 'F'.	6.24 9.89
We are yet to receive the reply of the Department in this case.					
Total					**195.18** **175.98**

2.12.14 Irregular assessment at concessional rate

2.12.14.1 [Superintendent of Tax, Morigaon; June 2010]

The CST Act provides that interstate sale of goods, other than declared goods, to the registered dealers/Government departments if supported by valid and duly filled in declaration in Form 'C' are taxable at the concessional rate of four *per cent*. Otherwise, tax is payable at the rate of 10 *per cent* or at the rate of tax applicable under the State Act, whichever is higher. In addition, interest at the prescribed rate is also leviable.

The CT, Nagaland in his letter dated February 2002 intimated the CT, Assam regarding cancellation of a series of declaration Forms 'C' with effect from 11 June 2001. This information was duly circulated to all the unit offices by the CT, Assam in December 2002 for being used while finalising the assessments.

We observed that the assessing authority, while finalising the assessments of M/s Hindustan Paper Corporation Limited in April 2010 allowed concessional rate of four *per cent* on a turnover of ₹ 198.11 crore for the year 2003-04. We found from the case records that interstate sales amounting to ₹ 13.41 crore (out of ₹ 198.11 crore) related to the year 2004-05 but were allowed to be taxed at concessional rate during 2003-04. This resulted in irregular allowing of concessional rate of tax on the turnover of ₹ 13.41 crore and consequent short levy of tax of ₹ 77.38 lakh and interest amounting to ₹ 1.28 crore.

After we pointed this out, the Department stated (August 2011) that the assessment for the year 2003-04 has been revised and demand notice of ₹ 2.93 crore including interest has been issued to the dealer. Report of recovery is awaited (August 2011).

2.12.14.2 In Assistant Commissioners of Taxes, Guwahati Unit – B, D and Jorhat we observed (between June 2009 and February – March 2010) that the assessing authorities while finalising the assessments of eight dealers[40] for the years 2004-05 to 2006-07 between May 2007 and March 2009 allowed concessional rate of tax of four *per cent* on a turnover of ₹ 50.01 crore. We found from the case records that interstate sales amounting to ₹ 1.49 crore were supported by declarations in Form 'C' which were declared invalid by the Government of Nagaland and the same should have been denied the benefit of concessional rate of tax. This was not done. Thus, inaction on the part of the assessing authorities to take note of the circular of the CT, Assam in this regard resulted in irregular allowance of concessional rate on the

[40] 1) Ambica Sales, 2) Asian Paints, 3) Mother Diary Food Processing, 4) North East Distilleries, 5) Pepsico India Holding Private Limited, 6) Singhi Conductor, 7) Singhi Cable, and 8) TCL India Holding Private Limited.

turnover covered by invalid declaration forms and short levy of tax of ₹ 12.62 lakh and non-levy of interest of ₹ 12.90 lakh.

After we pointed this out, the Department stated that in respect of M/s Asian Paints, M/s North East Distilleries, M/s Pepsico India Holding Private Limited and M/s TCL India Holding Private Limited, the assessments have been completed and demand notices issued. Report on recovery is awaited.

In respect of M/s Ambica Sales, M/s Singhi Cable and M/s Singhi Conductor, the Department stated that the dealers have submitted fresh 'C' forms in replacement of the earlier fake 'C' forms, which were accepted by the AO. The reply of the Department was not acceptable as acceptance of fresh 'C' forms against fake ones without revisional orders of the next higher authority was improper and irregular.

Besides, the reply was silent regarding the action taken against the AO for failing to detect the fake 'C' forms despite these were circulated by the CT, Assam causing loss to the State exchequer.

2.12.15 Conclusion

Concession/exemption of tax payable on transactions in course of inter-state trade and commerce is allowed to promote trade and commerce. Since the respective state Government's revenue is at stake, it is important that a foolproof internal control mechanism is installed and effective check is ensured to prevent irregular allowance of concession/exemption which caused loss to the state exchequer. Our performance audit revealed that the Department has not installed any mechanism to monitor compliance of the CT's orders of May 2000 by the assessing authorities. There was no system of periodic cross verification of declaration forms with other states by the assessing authorities, neither were they taking the help of the information available on the TINXSYS website while allowing concession/exemption. Besides, we noticed instances where the assessing authorities allowed concession/exemption without declaration forms/defective forms. We carried out cross verification of declaration forms with other states and found instances of variation between the figures of the forms of selling and purchasing dealers, fraudulent use of forms issued to other dealers, usage of fake/obsolete forms and concealment of purchase turnover. Due to these weaknesses and absence of monitoring, there is no assurance that the concessions/exemptions allowed were correct and appropriate and there was no revenue leakage.

2.12.16 Recommendations

The Government may consider implementing the following recommendations in the interest of revenue of the State:

- making verification of declaration forms mandatory while allowing concession/exemption based on the information available on the TINXSYS website;
- making it mandatory for dealers to furnish the utilisation statements of declaration forms while submitting their returns and for the assessing authorities to verify the same while scrutinising returns/finalising assessments;
- introducing a system for cross verification of declaration forms with other States at periodic intervals; and
- taking appropriate steps for completion of CST assessments within the prescribed limit.

2.13 Other audit observations

Our scrutiny of records of assessing officers relating to sales/value added tax (VAT) in the Taxation Department revealed several cases of non-observance of provisions of Acts/Rules/departmental orders and other cases as mentioned in the succeeding paragraphs. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of assessing officers (AO) are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till we conduct the next audit. We are concerned as these observations are also sent to the higher authorities including the Government each time these are detected. Government and the Department need to strengthen measures to effectively monitor the cases, arrest recurrence of the irregularities and improve the internal control system including internal audit so that such mistakes and omissions are detected, corrected and avoided.

2.14 Incorrect grant of exemption on export

[Superintendent of Taxes, Morigaon; June 2010]

The Central Sales Tax (CST) (Registration and Turnover) Rules, 1957, provide that a dealer may claim exemption from payment of tax for sale in course of export, if the sales are supported by form H/form VII duly filled in and signed by the exporter alongwith evidence of such export. Otherwise, tax is leviable at the rate of 10 *per cent* or at the rate of tax applicable under the State Act, whichever is higher. The CST Act read with the Assam General Sales Tax Act provides that if a dealer fails to pay the full amount of tax payable by him by the due date, he is liable to pay interest at the prescribed rate.

We observed that the assessing officer (AO), while finalising the assessment of M/s Hindustan Paper Corporation for the year 2003-04 in April 2010, allowed exemption from payment of tax on a turnover of ₹ 2.56 crore on the basis of 23 certificates from the Customs office at Birganj, Nepal and three forms H. Though the CST Rules clearly provide that exemption on export be allowed only if the turnover is supported by valid documents of export such as bill of lading, clearance of goods for export by Indian land customs stations and mode of receipt of payment on export sales, the AO allowed exemption on export sales only on the basis of form H and certificates from customs office of Nepal. This irregular allowance of exemption resulted in short levy of tax of ₹ 25.60 lakh and interest of ₹ 42.50 lakh.

Incidentally, it may be mentioned that irregular exemption of export sales in respect of M/s Hindustan Paper Corporation by the AO, Morigaon for the year 2002-03 has been pointed out in the last Audit Report, yet the mistake persisted while finalising the assessment of 2003-04 as well. This shows

slackness and negligence on the part of the AO in ensuring that the provisions of the relevant Acts and Rules are followed in letter and spirit.

After we pointed this out, the Department stated (August 2011) that the assessee furnished ARE-I[41] amounting to ₹ 2.28 crore as goods were actually exported and tax and interest on the balance amount of ₹ 29 lakh, treating the same as inter-state sale to other dealers not covered by declaration forms has been levied. The first part of the reply is not acceptable as we could not ascertain the veracity of claim of export as part B of the ARE-1 relating to 'Certification by Customs Officer' had neither been filled up nor signed by the customs officer. Further reply is awaited (August 2011). Also, we are yet to receive action taken note in respect of our observation for 2002-03.

We have reported the matter to the Department and the Government in June 2010 and followed up in February 2011. We have not received their replies (August 2011).

2.15 Short levy of value added tax on works contract

[Superintendent of Taxes, Naharkatia; June 2009]

Section 10 of the Assam Value Added Tax Act 2003 and Rules made thereunder provide that taxable turnover in respect of a contractor of civil work is determined after deduction of (i) labour charges, (ii) amount paid by way of sub-contract, (iii) cost of consumables, (iv) charges for planning and designing, (v) hire charges for plant and machinery etc. The works contract is taxable at the rate of 12.5 *per cent* as per schedule V of the Act.

We observed that the AO while finalising the assessment of M/s Badri Rai & Co in October 2008 for the assessment year 2006-07 allowed deduction towards labour and other charges of ₹ 14.86 crore against the claim of ₹ 14.98 crore from the total turnover of ₹ 20.06 crore on the grounds that the claim of the dealer was high. Scrutiny revealed that the dealer was allowed deduction of ₹ 14.86 crore against actual deductible amount of ₹ 5.81 crore. This resulted in short levy of tax of ₹ 1.13 crore and interest of ₹ 44.12 lakh.

After we pointed this out, the Department stated (August 2011) that the assessment was revised on 1.8.2009 by levying tax of ₹ 1.57 crore. But the dealer preferred an appeal against the revised assessment and the appellate authority directed (27 September 2010) the AO to make fresh assessment determining the net taxable turnover at different rates[42] of four *per cent* and 12.5 *per cent* on ₹ 3.72 crore and ₹ 7.28 crore respectively. Though the orders of the appellate authority were not in conformity[43] with the provisions of the Act, the AO revised (January 2001) the assessment accordingly levying tax

[41] Application for removal of goods for export.
[42] On the basis of commodities included in the works contract.
[43] As works contract was taxable at 12.5 *per cent* during the relevant period.

amounting to ₹ 86.90 lakh. Further, the AO while finalising the assessment allowed deduction of ₹ 75 lakh towards works in progress which was not ordered by the appellate authority. This resulted in short levy of tax of ₹ 50.63 lakh (leviable ₹ 1.38 crore – levied ₹ 86.90 lakh) and interest of ₹ 20.51 lakh.

We reported the matter to the Government in October 2009 and followed up in March 2011; we have not received their replies (August 2011).

2.16 Excess remission benefit to industrial units

[Assistant Commissioners of Taxes, Dhubri, Guwahati Unit D and Tezpur; September 2009 and February – March 2010]

Assam Industrial Sales Tax Concession Scheme (AISTCS), 1997 provides that a new industrial unit shall be exempted from payment of tax for a period of seven years subject to a maximum limit of 150 *per cent* of the capital investment. Further, as per the Scheme, the existing industries going for expansion/ modernisation/diversification shall be entitled to the benefit of part exemption of tax on sale of finished products for nine years subject to maximum of ninety *per cent* of the additional fixed capital investment. Consequent upon implementation of Assam Value Added Tax Act (with effect from 1 May 2005) the existing scheme was replaced by remission scheme and the industrial units are entitled to remission of 99 *per cent* of the tax payable by them during return periods until the amount of such remission exceeds the unavailed quantum of monetary ceiling.

2.16.1 We observed that the Taxation Department issued authorisation certificate to M/s Krishna Food Products based on eligibility certificate of the Industries Department for granting exemption from payment of tax for seven years with effect from 15 January 2000 subject to a maximum of ₹ 11.56 lakh (150 *per cent* of fixed capital investment of ₹ 7.71 lakh). Scrutiny revealed that the dealer enjoyed tax benefit of ₹ 15.15 lakh (upto 14 June 2007) instead of ₹ 11.56 lakh. This resulted in excess grant of exemption from tax of ₹ 3.59 lakh including interest of ₹ 2.37 lakh (calculated upto March 2011).

After we pointed this out, the Department stated (August 2011) that the assessment has been revised and demand notice for ₹ 6.83 lakh issued. We have not received the report on recovery (August 2011).

2.16.2 We observed that the AO, while finalising the assessments of M/s Polycon Industries allowed exemption from payment of tax for unit I (water storage tank) of ₹ 84.03 lakh during 12.10.1999 to 11.10.2006 against the maximum limit of ₹ 35.61 lakh. This resulted in excess allowance of tax exemption of ₹ 48.42 lakh. In addition, interest of ₹ 28.63 lakh was also leviable which was not levied.

After we pointed this out, the Department stated (August 2011) that the dealer was granted another exemption of ₹ 21.11 lakh in Agust 2010 for the period April 2005 to April 2012. Thus, the actual excess exemption was worked out as ₹ 27 lakh. The Department further stated that assessment order has been passed levying tax of ₹ 22.41 lakh and interest of ₹ 8.84 lakh, of which ₹ 9.50 lakh has since been recovered. Report on recovery of the balance amount is awaited (August 2011).

2.16.3 We observed that a dealer M/s Madhabi Biscuits Pvt. Ltd., was granted entitlement certificate for exemption of tax with validity from 12 December 2006 to 11 December 2015 as category 'B' subject to maximum ₹ 1.47 crore (90 *per cent* of additional investment of ₹ 1.63 crore). Scrutiny revealed that the dealer enjoyed exemption of ₹ 1.55 crore (upto September 2009) without restricting it to the maximum ceiling of ₹ 1.47 crore. This resulted in excess allowance of exemption of ₹ 8.03 lakh and non-levy of interest of ₹ 2.17 lakh.

After we pointed this out, the Department stated (August 2011) that assessment order has been passed and demand notice issued for payment of tax of ₹ 15.93 lakh and interest of ₹ 3.40 lakh. Report on recovery is awaited (August 2011).

2.16.4 In Assistant Commissioner of Taxes, Guwahati Unit – D, we observed (February – March 2010) that the AO while finalising the assessments of M/s Jagriti Industries (industrial unit), allowed exemption from payment of tax of ₹ 56.56 lakh against the maximum limit of ₹ 64.16 lakh (150 *per cent* of capital investment of ₹ 42.76 lakh) from 1 December 1999 to 30 November 2007 (for eight years) on the basis of entitlement and eligibility certificate issued by the concerned authorities. The period of tax benefit should have been restricted upto 14 May 2007 for ₹ 54.54 lakh after applying the formula prescribed under clause 3 (3) of the Tax Remission Scheme 2005. This was not done and it resulted in excess allowance of tax exemption of ₹ 2.02 lakh. In addition, interest of ₹ 1.04 lakh was also leviable.

After we pointed this out, the Department stated (August 2011) that the industrial unit deposited the tax amount of ₹ 2.02 lakh and the interest is in process of realisation. We are yet to receive the report on realisation of interest of ₹ 1.04 lakh (upto the date of payment of tax).

We reported the case to the Department/Government between November 2009 and November 2010; we are yet to receive their comments/replies (August 2011).

2.17 Incorrect grant of authorisation certificate to industrial unit

[Assistant Commissioner of Taxes, Silchar –March 2010]

Assam Industrial Sales Tax Concession Scheme (AISTCS), 1997 provides that a new industrial unit shall be exempted from payment of tax for a period of seven years subject to a maximum limit of 150 *per cent* of the capital investment. To avail such exemption, the intending industrial unit shall have to obtain a certificate of authorisation from the concerned sales tax office on the basis of eligibility certificate issued by the Industries Department. As held by the Supreme Court in the case Commissioner of Sales Tax, UP Vs Lal Kunwa Stone Crusher (P) Ltd. crushing stone boulders into smaller stones does not amount to manufacture as the identity of the used raw material and the processed finished products remains same in the both cases.

We observed that the AO, while finalising the assessments of M/s Arihant Stone Crusher allowed exemption from payment of tax of ₹ 7.87 lakh during the period 2001-02 to 2006-07. In view of the Apex Court's verdict, the authorisation/ entitlement certificate granted by the Sales Tax Department was irregular and resulted in undue exemption/remission of tax of ₹ 7.87 lakh. In addition, interest amounting to ₹ 8.21 lakh was also payable.

After we pointed this out, the Department stated (August 2011) that they have approached the Industries Department for cancellation of the entitlement certificate by the District Industries Centre. We have not received details of further development in the matter (August 2011).

We have reported the matter to the Government in April 2010 and followed up in February 2011; we are yet to receive their comments/replies (August 2011).

2.18 Incorrect grant of concessional rate of tax against Form 'B'

[Assistant Commissioners of Taxes, Guwahati Units B and C, Jorhat; April – June 2009 and November-December 2009]

Government vide notification dated 3 January 2003 stipulated that goods (cement, steel, furniture, type writer, electrical goods etc.) used for the purpose mentioned therein when sold by a dealer to Government Department/ undertakings for the purpose of the latter's own use against Form 'B' are taxable at the rate of four *per cent* with retrospective effect from 1 May 2001. The said notification was in force from May 2001 to April 2004 and thereafter no such concession was allowed by the Government.

We observed that the AOs while finalising the assessments of three registered dealers[44] for 2004-05 and 2005-06 (April 2005), levied tax at the concessional rate of four *per cent* on the taxable turnover of ₹ 4.38 crore on account of sales to Government Department against Form 'B'[45]. Scrutiny revealed that the turnover pertained to the period beyond April 2004 to April 2005 and thus was not entitled to concessional rate of tax. This resulted in short levy of tax of ₹ 38.58 lakh[46] including additional tax. In addition, interest of ₹ 54.76 lakh was also leviable (calculated upto March 2011).

After we pointed this out, the Department stated (April 2011) that the assessment in respect of two dealers (M/s ACC and M/s Singhi Conductors) had been revised and additional demand of ₹ 9.81 lakh and ₹ 48.79 lakh including interest respectively had been issued. In respect of M/s Godrej and Boyce Mfg, no specific reply was furnished by the Department (August 2011).

We reported the cases to the Government between August 2009 and December 2010 and followed up between January and March 2011; we are yet to receive their comments/replies (August 2011).

[44] 1) M/s ACC, 2) M/s Godrej and Boyce Mfg and 3) M/s Singhi Conductors.

[45] Form 'B' is the declaration form for claiming concessional rate of tax on sales to the Government Department within the State.

[46] Cement, electrical goods, Furniture, etc. are taxable at 13.2 *per cent* including additional tax of 10 *per cent* on the tax payable.

2.19 Evasion of tax

[Superintendent of Taxes, Hojai; July 2010]

The Assam General Sales Tax Act read with the Central Sales Tax Act, provide that if any part of the turnover of a dealer in respect of any period has escaped assessment to tax, the AO may, within eight years from the end of the relevant year make, a re-assessment of the dealer. If the dealer fails to pay the full amount of tax payable by him by the due date, he is liable to pay interest at the prescribed rate on the amount of tax due.

We observed that the AO, while completing the assessments of M/s Y K Enterprise for 2004-05 accepted the value of goods purchased from within Assam (purchase turnover) of ₹ 4.19 crore as declared by the dealer. Scrutiny of counterfoil of 'A' Form[47] revealed that the dealer purchased cement worth ₹ 2.16 crore (out of ₹ 4.19 crore) from another dealer M/s Jain Enterprise, Dibrugarh by issuing 'A' form bearing number 7256/181388. Cross verificaton of the assessment records of the selling dealer (M/s Jain Enterprise) revealed that M/s Y K Enterprise had actually purchased cement worth ₹ 3.34 crore against the said 'A' form. As such, purchase turnover of ₹ 1.18 crore was suppressed by the dealer. This resulted in evasion of tax to the tune of ₹ 5.20 lakh. In addition, interest amounting to ₹ 7.14 lakh (calculated upto January 2011) and penalty of ₹ 7.80 lakh (maximum) was also leviable.

After we pointed this out, the Department stated (August 2011) that assessment has been revised under Section 37 (1) of the AGST Act and tax and interest has been levied accordingly. We are yet to receive the report on realisation of the amount (August 2011).

We had reported the case to the Government in August 2010 and followed up in March 2011; we are yet to receive their comments/replies (August 2011).

[47] Form through which the liability of payment of tax is shifted to the subsequent point/dealer while the first dealer is exempted from tax on production of the form 'A'.

2.20 Concealment of turnover

[Assistant Commissioner of Taxes, Dibrugarh; November 2007]

The Assam General Sales Tax Act read with the Central Sales Tax Act provides that if a dealer conceals or fails to disclose fully and truly the particulars of his turnover, the AO may within eight years from the date of the relevant year make re-assessment of the dealer. When a dealer conceals the particulars of his turnover, he shall pay by way of penalty, in addition to tax, additional tax and interest, a sum not exceeding one and half times the amount of tax sought to be evaded.

We observed that the AO while finalising the assessments of M/s Sardar Karnail Singh and Sons determined taxable turnover at ₹ 35.88 lakh for the year 2003-04. However, cross verification of assessment records of the dealer vis-à-vis value of excisable goods cleared by the manufacturer as per information obtained from the Central Excise Department revealed that taxable turnover of the dealer during the same period was ₹ 67.53 lakh. As such, turnover of ₹ 31.65 lakh was suppressed by the dealer resulting in evasion of tax of ₹ 2.78 lakh. In addition, interest amounting to ₹ 2.81 lakh and penalty of ₹ 4.17 lakh (maximum) was also leviable which was not levied.

After we pointed this out, the Department stated (August 2011) that the assessment has been revised and demand notice of ₹ 5.59 lakh was raised, of which tax of ₹ 74,875 has been recovered. We are yet to receive a report of realisation of the balance amount (August 2011).

We reported the case to the Government in February 2008 and followed up in March 2011; we are yet to receive their comments/replies (August 2011).

2.21 Short levy of interest

[Assistant Commissioners of Taxes, Bongaigaon, Guwahati Units – C&D; August 2009 and March 2010]

The Assam General Sales Tax Act read with the Central Sales Tax Act, provide that if a dealer fails to pay the full amount of tax payable by him by the due date, he is liable to pay interest at the rate of two *per cent* for each month on the amount by which the tax paid falls short.

We observed that seven dealers[48] based in Bongaigaon and Guwahati failed to pay the full amount of tax payable by them for the years 2005-06 to 2007-08. The AO while completing the assessments between February 2007 and June 2009 assessed and levied

[48] (1) M/s Ghosh Brothers; (2) M/s Godrej and Boyce Mfg. Co. Limited. (3) M/s Khaitan Electrical Limited; (4) M/s M P Agencies; (5) M/s Mongol Chand Pabudan; (6) M/s Radiant Motors Private Limited; and (7) Reckit Benekiser.

interest of ₹ 3.31 lakh against leviable interest of ₹ 12.19 lakh resulting in short levy of interest of ₹ 8.88 lakh.

After we pointed this out, the Department stated (August 2011) that interest of ₹ 5.13 lakh has been recovered from five dealers[49] till date (August 2011). In respect of other two dealers, they stated that they had closed down their business and left the State. Further development has not been reported (August 2011).

We had reported the case to the Government between August 2009 and April 2010 and followed up in March 2011; we are yet to receive their comments/ replies (August 2011).

2.22 Turnover escaping assessment

[Assistant Commissioner of Taxes, Guwahati 'C' unit; August-September 2009]

Under the Assam General Sales Tax Act, if any part of the turnover of a dealer in respect of any period escaped assessment to tax, the AO may within eight years from the end of the relevant year make a reassessment of the dealer. If a dealer fails to pay the full amount of tax payable by him by the due date, he is liable to pay interest at the prescribed rate on the amount of the tax remaining unpaid.

We noticed that while assessing a dealer, M/s Dynasty Walford Limited, having a branch named M/s Dynasty Motors Private Limited (dealing in vehicles and spare parts) for the year 2003-04 in February 2005, the AO had mentioned that the dealer had closing stock of taxable goods (vehicles and spare parts) valued at ₹ 62.31 lakh as on 31 March 2004. In September 2003, the name of the branch i.e. M/s Dynasty Motors Private Limited was changed to M/s Overland Auto Private Limited as approved by the Registrar of Companies and the new firm was got registered as a separate entity dealing in vehicles and spare parts under the AGST and Central Sales Tax Acts in April 2004. We observed that while the name of the branch was changed and registered as a separate firm, the closing stock of vehicles and spare parts held by the branch as on 31 March 2004 was not brought forward as the opening stock of the new firm as on 1 April 2004. The AO also failed to detect this mistake which resulted in turnover of ₹ 62.31 lakh escaping assessment leading to underassessment of tax of at least ₹ 8.22 lakh. Besides, interest at appropriate rates on the unpaid tax was also leviable.

After we pointed this out, the AO stated in March 2011 that the assessment for the year 2004-05 has been revised incorporating stock of goods of ₹ 62.31 lakh in the turnover and an additional demand of ₹ 32.52 lakh has been raised

[49] (1) M/s Ghosh Brothers; (2) M/s Godrej and Boyce Mfg. Co. Limited. (3) M/s Khaitan Electrical Limited; (4) M/s Radiant Motors Private Limited; and (5) Reckit Benekiser.

(including other concealments detected during re-assessment). We are yet to receive confirmation of recovery of tax (August 2011).

We reported the case to the Department/Government in November 2009 and followed up in March 2011; we have not received their replies (August 2011).

2.23 Underassessment of tax

[Superintendent of Tax, Barpeta; August-September 2008]

The Assam Value Added Tax Act read with the Central Sales Tax Act provides that if any part of the turnover of a dealer in respect of any period has escaped assessment to tax, the AO may within eight years from the end of the relevant year make a re-assessment of the dealer. If the dealer fails to pay the full amount of tax payable by him by the due date, he is liable to pay interest at the prescribed rate on the amount of tax due. Jute is a declared goods and taxable at the rate of four *per cent* in Assam.

We observed that the AO while finalising the assessments of M/s Shree Hari Traders in April 2008 for the year 2005-06, determined the taxable turnover at ₹ 22.04 lakh instead of ₹ 44.59 lakh as per suo-moto revisional order passed by the Deputy Commissioner of Taxes. This resulted in turnover of ₹ 22.55 lakh escaping assessment leading to underassessment of tax of ₹ 1.80 lakh and interest of ₹ 1.60 lakh.

After we pointed this out, the Department stated (August 2011) that the assessment has been revised and demand of ₹ 3.40 lakh has been issued. Report on recovery is awaited (August 2011).

We reported the case to the Government in October 2008 and followed up in February 2011; we are yet to receive their comments/replies (August 2011).

2.24 Incorrect allowance of concessional rate of tax on sales to Government Departments against 'D' forms

[Assistant Commissioners of Taxes, Guwahati 'A' and 'C' units]

Under the CST Act, a dealer, who in course of inter-state trade or commerce sells to Government departments, any goods other than declared goods, is liable to pay tax at the concessional rate of four *per cent* if sales are supported by valid certificates in form 'D'. Otherwise, tax is payable at the rate of 10 *per cent* or at the rate applicable under the State Act, whichever is higher. In addition, interest is also leviable. However, allowance of concessional rate against 'D' forms has been abolished from 1 April 2007.

2.24.1 We observed that while finalising (January and November 2009) the assessments of two dealers for the periods 2004-05 and 2005-06, the AOs irregularly allowed concessional rate of

tax on inter-state sale of ₹ 21.03 crore to Government departments against defective[50] 'D' forms. This resulted in short levy of tax and interest of ₹ 5.65 crore.

2.24.2 During scrutiny of assessment records of a dealer in Unit-B Guwahati for the assessment period 2007-08, assessed in September 2008, we obseved that the AO allowed concessional rate of tax on ₹ 2.38 crore against certificates in form 'D'. The allowance was irregular as the concession on sales to Government departments against 'D' form was abolished from April 2007. This resulted in short levy of tax and interest of ₹ 3.31 lakh.

We reported the cases to the Department and the Government in September 2011; we are yet to receive their replies.

2.25 Incorrect allowance of exemption against transfer of documents during inter state sales against E-I/E-II forms

[Assistant Commissioners of Taxes, Guwahati 'C' unit and Jorhat]

Under the CST Act (as it stood during the relevant period), any subsequent sale of goods during their movement from one State to another effected by a transfer of documents of title to such goods to Government departments or to a registered dealer shall be exempted from levy of tax provided such sale is supported by a declaration in form 'E I' duly filled and signed by selling dealer alongwith form 'C' and 'D'.

We observed that while finalising the assessments of two dealers between September 2009 for the assessment years 2005-06 and 2006-07, the AOs exempted turnover of goods valued at ₹ 2.53 crore from payment of tax as goods were sold in transit. Scrutiny in audit revealed that the sales were supported by defective[51] declarations in form 'E-I/E-II' and thus, the allowance of exemption was irregular. This resulted in non-levy of tax and interest of ₹ 20.33 lakh.

We reported the cases to the Department and the Government in September 2011; we are yet to receive their replies.

[50] Without proper or insufficient details of the purchasing dealer.
[51] Without proper or insufficient details of the selling dealer.



CHAPTER – III: STATE EXCISE

3.1 Tax administration

In Assam, excisable items such as country spirit, extra neutral alcohol (ENA) and other spirits are imported from outside the State. India made foreign liquor (IMFL) and beer are manufactured and bottled in the State and also imported from outside the State. The State Excise Department is responsible for administration and collection of excise revenue under the relevant Acts and Rules and enforcement of the Excise laws on prohibition of illicitly distilled liquor, *Ganja*, *Bhang* and opium. In addition, the Department is given the responsibility of enforcing the provisions of Narcotic Drugs & Psychotropic Substances Act and the Medicinal & Toilet Preparation Act. The functioning of the Department is governed according to the provisions of the Assam Excise Act (AE Act), 1910 and the Assam Excise Rules (AER), 1945, and various administrative orders issued from time to time. The Assam Bonded Warehouse Rules (ABW Rules), 1965, regulate the establishment and working of bonded warehouses.

The Commissioner of Excise is the head of the Department who is assisted by an Additional Commissioner, one Joint Commissioner, one Deputy Commissioner and one chemical examiner at the headquarters. At the district/sub-divisional levels (field formation) there are Superintendents/Deputy Superintendents of Excise who are assisted by Inspectors of Excise and other officials in discharging their day to day functions.

3.2 Budget preparation

As per the provisions of the Assam Budget Manual, the estimates of revenue and receipts should show the actual demand including arrears due for past years and the probability of their realisation during the year. According to the Assam Financial Rules, the Finance Department is required to prepare the estimates of revenue after obtaining necessary information/data from the respective Department.

The Government of Assam, Excise Department stated (June 2011) that the budget estimates were being prepared with the basic objective of enhancement of revenue. The reply did not indicate whether the provisions of the Budget Manual or any scientific basis was adopted while preparing the estimates. Estimation of receipts was done on *adhoc* basis which rendered budget estimates unrealistic as indicated in the Table 1 of the succeeding paragraph.

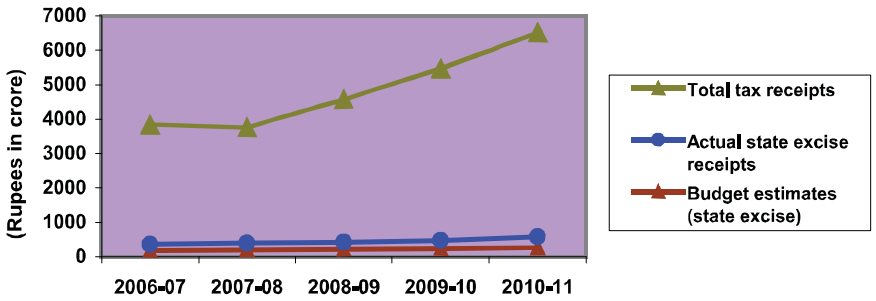
3.3 Trend of receipts

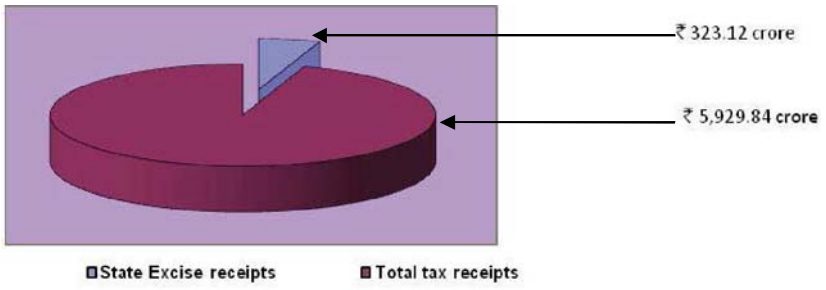
Position of budget estimates, actual receipts under state excise along with total tax receipts of the State during 2006-07 to 2010-11 is exhibited in Table 1 and graph/pie chart below.

Table 1
Analysis of excise receipts

(₹ in crore)

Year	Budget estimate	Actual receipts under state excise	Variation excess (+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts {(3) to (6)}
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	184.61	174.88	(-) 9.73	(-) 5	3,483.32	5
2007-08	204.92	188.71	(-) 16.21	(-) 8	3,359.50	6
2008-09	223.30	198.68	(-) 24.62	(-) 11	4,150.21	5
2009-10	235.90	239.19	3.29	1	4,986.72	5
2010-11	259.46	323.12	63.66	25	5,929.84	5





The share of excise receipts in the total tax receipts of the State remained between five and six *per cent* during the last five years.

The Department stated (June 2011) that the reasons for abrupt increase of actual receipts during 2010-11 was attributable to the issue of more India made foreign

liquor (IMFL) 'On'[1] licences and enhanced re-structuring of excise levies thereon.

3.4 Cost of collection

Details of gross collection of excise duty, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the all India average percentage of expenditure on collection of preceding years are mentioned in Table 2.

Table 2
Cost of collection

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection of preceding year
2008-09	198.68	11.62	6	3.66
2009-10	239.19	22.22	9	3.66
2010-11	323.12	25.94	8	3.64

"Source: Finance Accounts and Departmental figures".

The percentage of expenditure to gross collection in all the three years (2008-09 to 2010-11) was significantly higher than the All India average percentage of expenditure on collection.

3.5 Impact of audit

During the period 2005-06 to 2009-10, we had, through our inspection reports (IRs) pointed out non/short realisation of establishment charge/excise duty, non-payment of licence fee, loss of revenue due to warehouse going dry and other irregularities with revenue implication of ₹ 20.01 crore in 268 cases. Of these, the Department accepted audit observations in 32 cases involving recovery of ₹ 1.84 crore and since recovered ₹ 1.32 crore. Details are shown in Table 3.

Table 3
Impact of audit

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	13	42	3.72	4	0.05	4	0.05
2006-07	20	56	8.40	4	0.12	Nil	Nil
2007-08	21	51	1.15	4	0.14	Nil	Nil
2008-09	19	43	1.42	2	0.05	Nil	Nil
2009-10	11	76	5.32	18	1.48	16	1.27

[1] Where the licensee is allowed to serve intoxicants in its premises.

Total	**84**	**268**	**20.01**	**32**	**1.84**	**20**	**1.32**

The Department/Government has accepted only 12 *per cent* cases pointed out by us during the last five years and recovered ₹ 1.32 crore which is more than 72 *per cent* of the accepted amount. However, the percentage of recovery when seen against the total amount objected stood at seven *per cent* which needs improvement.

We recommend that the Department strengthen the system of monitoring audit paragraphs with special attention on recovery of accepted cases.

3.6 Working of internal audit wing

Internal audit, a component of the internal control mechanism, functions as the 'eyes and ears' of the management and is a vital tool which enables an organisation to assure itself that prescribed systems are functioning reasonably well.

We observed that there is no internal audit wing in the State Excise Department. Inspection of different establishments under the Department is conducted by officers of the Department of different levels. Had the Department arranged internal audit of its records/accounts at periodic intervals, deficiencies detected by us during local audit could have possibly been detected and rectified.

We recommend that the Department should arrange for internal audit of its records/accounts either by establishing an internal audit wing or by the Director of Local Audit.

3.7 Results of audit

Our test check of records of 15 units relating to the State Excise Department during 2010-11 revealed non-levy of excise duty, non/short realisation of establishment charges, loss due to warehouse going dry and other irregularities involving ₹ 8.19 crore in 76 cases as mentioned in Table 4.

Table 4
Results of audit

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Loss due to non-levy of excise duty	5	1.61
2.	Non-payment of licence fee	12	0.54
3.	Non/short realisation of establishment charges	7	0.39
4.	Loss due to warehouse going dry	2	0.13
5.	Other irregularities	50	5.52
Total		**76**	**8.19**

The Department accepted 36 cases with revenue implication of ₹ 90.76 lakh pointed out during 2010-11 and recovered ₹ 15.35 lakh in 14 cases.

We noticed in case of a bonded warehouse (M/s Zarang India Pvt. Ltd Dibrugarh) that after allowance of excess transit loss pointed out in audit, the full amount of ₹ 2.53 lakh was recovered by the Department from the licensee.

A few illustrative audit observations with financial implication of ₹ 2.31 crore are mentioned in the following paragraphs.

3.8 Audit observations

Our scrutiny of the records of the State Excise Department revealed several cases of non-observation of the provisions of Acts/Rules/departmental orders as mentioned in the succeeding paragraphs. These cases are illustrative and are based on test checks carried out by us. Such omissions on the part of the departmental officers are pointed out by us each year. However, not only do the irregularities persist, these remain undetected till we conduct subsequent audits. We are concerned as these observations are also sent to the higher authorities including the Government. There is, thus, a need for Government to improve the control and monitoring mechanism, besides putting in place an effective internal audit system so that these omissions are prevented, detected and corrected regularly and promptly.

3.9 Non-realisation of excise duty on short production of liquor

[Superintendent of Excise (SE), Kamrup; between July and September 2010]

As per the Assam Excise Rules (AER), 1945, maximum permissible wastage for blending and bottling of 'India made foreign liquor' (IMFL) is one *per cent*.

We observed that the Assam Distillery Rules do not prescribe any norm for manufacture of IMFL from extra neutral alcohol (ENA). This is fraught with the risk of evasion of excise duty as duty is payable on IMFL which is produced from ENA and any shortfall in production due to absence of any benchmark would result in loss of revenue. In the absence of any prescribed benchmark/norm in AER, we noted the norm followed by three distilleries (out of seven distilleries operational in Guwahati) as certified by the concerned inspectors of excise which is – one bulk litre ENA X 1.66 strength = 1.66 LPL[2]/0.75 degree proof = 2.2213 LPL.

We noticed that M/s North East Distilleries Pvt. Ltd., under the jurisdiction of SE, Kamrup used 64,63,913 BL of ENA during 2009-10. As per the norms adopted by the distilleries test checked in audit, 64,63,913 BL of ENA should have yielded 15,73,747 cases[3] of IMFL whereas the distillery showed production of 14,96,188

[2] London proof litre – Strength of alcohol is measured in terms of 'degree proof'. Strength of such alcohol 13 parts of which weigh exactly equal to 12 parts of water at 51 degree Fahrenheit is assigned 100 degree proof. Apparent volume of a given sample of alcohol when converted into volume of alcohol having strength 100 degree is called LPL.

[3] 64,63,913 BL of ENA X 1.66 strength/0.75 degree proof = 1,43,06,794 LPL reduced by 1,43,067 LPL (being maximum one *per cent* blending and bottling loss) = 1,41,63,727 LPL/9 BL = 15,73,747 cases (1 case = 12 bottles of 750 ml = 9 BL).

cases of IMFL. The shortfall in the yield of 77,559 cases of IMFL involved excise duty of ₹ 3.10 crore[4].

We recommend that the Department/Government may initiate immediate steps to notify the norms officially for manufacturing IMFL from ENA to serve as a benchmark for distilleries and prevent cases of avoidable short production leading to loss of revenue.

After we pointed this out, the Government forwarded (August 2011) the reply of the SE, Kamrup stating that there was a variation of 633 cases of IMFL on which duty of ₹ 2.65 lakh has been demanded. We noticed that the reply furnished was obtained from the distiller by the SE in which the quantity of opening, closing stock and import of ENA during 2009-10 differed from those furnished to us by the officer-in-charge of the distillery during audit. Further, the distiller in its reply has showed transfer of 1.20 lakh BL of ENA to other distilleries during the year which was not mentioned by the officer-in-charge in his report to us. The figures of opening, closing stock and import/transfer of ENA as furnished by the distiller are not acceptable as the figures furnished by the excise officer-in-charge are considered as final and the assessment of revenue and other control measures exercised by the CE on the distiller are based solely on these figures. Government did not furnish reply to our recommendation on fixation of norms for manufacture of IMFL from ENA.

3.10 Non-realisation of revenue on non/short lifting of country spirit

[SE, Jorhat and Kamrup; February and July-September 2010]

The AER provide that a licensee is required to prove to the authority granting a pass that the quantity specified in the pass has actually been lifted and delivered to the officer-in-charge of the country spirit warehouse. In case of non-lifting of the full quantity, the licensee has to obtain non-execution certificates (NEC) duly countersigned by the SE of the district {Commissioner of Excise (CE), Assam's order of October 2004} within 15 days from the date of expiry of the validity of the permit and furnish the same to the CE. Otherwise, a sum equal to the amount of duty payable on the unlifted quantity will be realised from the defaulting licensee.

3.10.1 We noticed that a Government approved contractor, Shri Deepak Sonowal under SE, Jorhat was permitted (September 2006 with validity upto 27 November 2006) to lift one lakh bulk litre (BL) of rectified spirit. The licensee neither imported the spirit nor furnished the required NEC despite lapse of more than three years as on the date of audit (February 2010).

[4] Total 77,559 cases, of which 19,417 cases calculated @ ₹ 340 per case (minimum rate of excise duty leviable on general brands) and the remaining 58,142 cases calculated at ₹ 419 per case (revised rate of excise duty on general brands applicable from June 2009 onwards).

3.10.2 In another case, we noticed that a Government approved contractor, M/s Maruti Nandan Enterprise, Guwahati under SE, Kamrup was permitted (April and July 2009 with the validity upto July and October 2009 respectively) to lift 3.30 lakh bulk litre of country spirit. The licensee, however, lifted 80,000 BL of country spirit (between May 2009 and August 2009) resulting in short lifting of 2.50 lakh BL of country spirit. The balance quantity was neither lifted by the licensee nor did he file the requisite NECs within the prescribed period of 15 days after the expiry of the permits.

The Department also did not raise demand for recovery of the excise revenue of ₹ 1.45 crore[5] on the unlifted quantity of country spirit in the two cases.

After we pointed this out, the Government stated (August 2011) that the contractor under the SE, Jorhat had not executed the permit and returned the same in March 2011. As regards the other case, the Government stated that the contractor had submitted NECs from the respective distilleries. However, we found that while in the first case the contractor did not submit any NEC, in the other case, the NECs furnished were not acceptable as these were not countersigned by the concerned SE. Further, these NECs were submitted after four years from the dates of expiry of validity of the permits.

The above observations and replies furnished by the Government point towards a need for improving the control mechanism in such cases as it failed to keep a watch on the execution of the permits/receipt of NEC within the prescribed timeline till the issue was raised by us.

3.11 Non-realisation of establishment charges

[SE, Kamrup, Nagaon, N C Hills and Tezpur; between April and September 2010]

The Assam Bonded Warehouse Rules, 1965 (ABWR) and the Assam Distillery Rules, 1945, provide that the CE shall appoint such excise officer and establishment as he thinks fit to the charge of bonded warehouses/distilleries and for this, the licensees shall pay establishment charges (pay and allowances, leave salary and pension contribution) at the prescribed rates at the end of each calendar month.

During test check of the records of the above SEs, we observed that two distilleries and 15 bonded warehouses did not pay the establishment charges of ₹ 35.58 lakh due for various periods falling between August 2008 and August 2010 for the excise officials engaged in their warehouses/ distilleries. The concerned SEs also did not issue demand

[5] M/s Maruti Nandan –quantity short lifted – 2.50 lakh BL = 4,13,500 LPL (1 BL = 1.654 LPL) X excise duty @ ₹ 27/LPL = ₹ 111.65 lakh.
M/s Deepak Sonowal – quantity not lifted – 1 lakh BL = 1,65,400 LPL X excise duty @ ₹ 20/LPL = ₹ 33.08 lakh.

notices to the defaulters for payment of establishment charges. This resulted in non-realisation of establishment charges of ₹ 35.58 lakh.

After we pointed this out, the Government stated (August 2011) that ₹ 11.22 lakh has been recovered from 10 licensees while demand notices have been issued to the remaining seven licensees for payment of establishment charges. Further developments have not been reported (August 2011).

3.12 Non-realisation of licence fees

[SE, Kamrup, Nagaon and North Cachar Hills; between April and September 2010]

The AER provides that the licensees of wholesale bonded warehouse and foreign liquor retail licence holders are required to pay annual fee in advance for renewal of their licences.

In case of failure to do so, their shops are to be closed with the approval of the CE (instruction No. 141 under Chapter-IV of NE Region Excise Manual) till the fees are paid. Their licences are also to be cancelled in case they do not pay the fees promptly after closure of their shops.

During scrutiny of the records in the above offices, we observed that 15 licence holders of bonded warehouse, wholesale, distillery, retail, bar etc., did not pay licence renewal fee between 2005-06 and 2010-11. The CE/SE did not take any action to raise demand for payment of the licence fee or to close their shops and cancel their licences. We also noticed that there is no system for verifying the validity of licences while issuing permits. This resulted in running of the businesses without proper licences and non-realisation of revenue of ₹ 20.70 lakh due as licence fees.

After we pointed this out, the Government stated (August 2011) that ₹ 1.60 lakh has been recovered[6] from three licensees; demand notices issued to two licensees[7] for payment of dues of ₹ 4 lakh while no specific reply was furnished as regards the other licensees[8].

[6] M/s Kollong Valley Enterprise Bonded warehouse (₹ 1 lakh), M/s Oasis Bar and M/s Siroylily Bar (₹ 30,000 each).

[7] M/s M K Bonded warehouse and M/s A B Bonded warehouse.

[8] M/s Kollong Valley Enterprise Bonded warehouse's wholesale licence – pending with the CE;
M/s Rhino Agencies – no reply furnished;
M/s Honey drop wine shop – the case is pending;
M/s QBBA Bar and M/s Jankar B Booth – closed (our comments - licence fee is payable in advance, hence licence fees stand realisable in these cases);
M/s Ritu Chandra Deka – contractor requested to adjust security of ₹ 1 lakh against the dues (our comments - amount payable is ₹ 2 lakh, neither specific orders forfeiting the security nor any reply how the balance ₹ 1 lakh would be recovered were furnished).

We recommend that the Government install an effective system for verification of validity of licences while issuing the permits.

3.13 Non-realisation of revenue due to warehouse going dry

[SE, North Lakhimpur and Tinsukia; October 2009 and March 2010]

The AER provide that a contractor shall maintain such minimum stock of spirit in the warehouse as may be fixed from time to time so that the warehouse does not go dry. Otherwise, he is required to compensate the loss of revenue sustained by the Government owing to his failure to maintain adequate/ minimum stock of spirit.

Three contractors/licensees M/s Chavelier Enterprise, Ujjal Baruah and the Excise Warehouse Laipuli, Tinsukia did not maintain adequate/minimum stock of spirit and the stock declined to zero during 263 days at different spells between the period 1 June 2008 and 30 August 2009. As a result, the Government was deprived of revenue of ₹ 29.53 lakh which the contractors were liable to compensate. The contractors neither paid the compensation nor did the Department make any attempt to recover the amount which resulted in non-realisation of revenue of ₹ 29.53 lakh.

After we pointed this out, the Government stated (August 2011) that show cause notices have been issued to the contractors under SE, North Lakhimpur while in the case of the contractor under SE, Tinsukia no specific reply was furnished (August 2011).



CHAPTER – IV
MOTOR VEHICLE TAX

4.1 Tax administration

The Transport Department is responsible for collection of taxes, fees and fines on motor vehicles in Assam. Motor vehicles tax is realised primarily from all vehicles registered in the State; tax is realised once for 15 years in the case of private vehicles while for commercial vehicles, it is realised each year, at the option of the vehicle owner to pay it every quarter, half year or annually. Besides, composite fee in lieu of motor vehicles tax is also collected from commercial vehicles bearing national permit/tourist permit of other States willing to ply in the State. Further, there is provision for levy and collection of fines for various offences which are imposed under the respective Act and Rules. Motor vehicle tax so collected is deposited in the Government exchequer under the major head of account-0041.

The functioning of the Department is governed according to the provisions of the Motor Vehicles Act, 1988 and Rules 1989, the Assam Motor Vehicles Taxation Act, 1936 and Rules, 2003 and various administrative orders issued from time to time.

The Principal Secretary is in overall charge of Transport Department in the Government. The Commissioner of Transport is the head of the Department who is assisted by one Joint Commissioner {who is also the ex-officio Secretary, State Transport Authority (STA)}, one Deputy Commissioner and one Assistant Commissioner of Transport. There are 26 district level offices which are headed by district transport officers who are assisted by motor vehicles inspectors and other officials in discharging their day to day functions. They are empowered to implement taxation laws and rules.

4.2 Budget preparation

As per the provisions of the Assam Budget Manual, the estimates of revenue and receipts should show the actual demand including arrears due for past years and the probability of their realisation during the year. According to the Assam Financial Rules, the Finance Department is required to prepare the estimates of revenue after obtaining necessary information/data from the respective Department/ Government.

The Department of Transport stated (June 2011) that in estimating the revenues, tax structure of motor vehicles, trend of revenue, trend of motor

vehicles registered, movement of vehicles across the motor vehicle checkgates, amount of arrears of taxes, etc., are taken into consideration.

4.3 Trend of receipts

The position of budget estimates, actual receipts under 'Taxes on Motor Vehicles' alongwith the total tax receipts of the State during 2006-07 to 2010-11 are exhibited in Table 1 and graph/pie chart below.

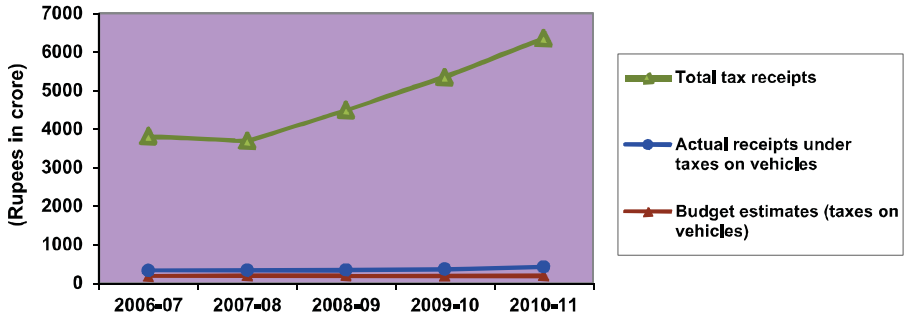
Table 1

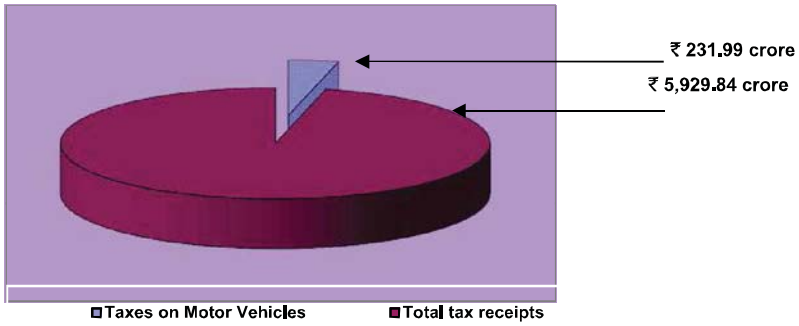
Analysis of taxes on motor vehicles receipts

(₹ in crore)

Year	Budget estimate	Actual receipts of Taxes on Motor Vehicles	Variation excess (+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts {(3) to (6)}
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	172.63	151.15	(-) 21.48	(-) 12	3,483.32	4
2007-08	191.62	138.62	(-) 53.00	(-) 28	3,359.50	4
2008-09	193.00	145.21	(-) 47.79	(-) 25	4,150.21	3
2009-10	181.51	177.26	(-) 04.25	(-) 2	4,986.72	4
2010-11	189.54	231.99	42.45	22	5,929.84	4

Source: Finance Accounts and Departmental figures.





Position of motor vehicle taxes vis-a-vis total tax receipts during 2010-11

It is noticed from the table above that the percentage of taxes on motor vehicles receipts when compared to the total tax receipts of the State remained between three and four *per cent* during the last five years.

Though the Department has put in place a mechanism for estimating the revenues, there were substantial variations between budget estimates and actual receipts ranging between (-) 28 and 22 *per cent* reasons for which need to be examined by the Department/Government so that the same is reduced.

4.4 Cost of collection

Details of gross collection of taxes on motor vehicles, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the all India average percentage of expenditure on collection of preceding years are mentioned in Table 2.

Table 2

Cost of collection

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection of preceding year
2008-09	145.21	9.03	6	2.58
2009-10	177.26	8.62	5	2.93
2010-11	231.99	10.07	4	3.07

Source: Finance Accounts and Departmental figures.

The percentage of expenditure to gross collection in all the three years 2008-09 to 2010-11 was significantly higher than the all India average percentage of expenditure on collection.

We recommend that the Government take appropriate steps to reduce the cost of collection.

4.5 Impact of audit

During the period 2006-07 to 2009-10, we had, through our inspection reports (IRs) pointed out instances of non-realisation of tax, non-assignment of new registration marks, non/short realisation of trade licence fee/certificate fee, non-levy of fine on trucks carrying excess load and other irregularities with revenue implication of ₹ 185.40 crore in 1,664 cases. Details are shown in Table 3.

Table 3

Impact of audit

(₹ in crore)

Year of Inspection Report	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2006-07	20	1,500	2.26	262	0.37	0	Nil
2007-08	20	73	177.66	0	0	0	
2008-09	19	27	2.18	9	0.31	0	
2009-10	15	64	3.30	18	0.77	7	0.06
Total	**74**	**1,664**	**185.4**	**289**	**1.45**	**7**	**0.06**

Against 1,664 audit observations involving money value of ₹ 185.40 crore, the Department accepted 289 observations involving ₹ 1.45 crore which is barely 0.78 *per cent.* Out of the accepted amount of ₹ 1.45 crore, the Department could recover only ₹ 6 lakh. Recovery of revenue (four *per cent)* when compared to the number of cases accepted by the Department was extremely low which points towards a need for strengthening the monitoring mechanism in the Department which would ensure recovery of revenue at least in respect of the accepted cases.

4.6 Working of internal audit wing

Internal audit, a vital component of the internal control mechanism, functions as eyes and ears of the Department and is a vital tool which enables the management to assure itself that prescribed systems are functioning reasonably well.

The Department stated that the Finance Department has not put in place any separate internal audit system for the Transport Department. Had there been an effective internal audit system in the Department, deficiencies detected by us during local audit could possibly have been detected, rectified and prevented.

We recommend that the Department may, in coordination with Finance Department, arrange to conduct internal audit of its records/accounts through the Director of Local Audit regularly.

4.7 Results of audit

Our test check of records in 19 unit offices of the Transport Department during 2010-11 revealed non/short levy of fine/motor vehicles taxes amounting to ₹ 413.74 crore in 60 cases as shown in Table 4.

Table 4

Results of audit

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	**Computerisation in the Transport Department (A performance audit)**	1	–
2.	Non-levy of fine on overloaded vehicles	1	409.64
3.	Non/short realisation of motor vehicle taxes	34	2.67
4.	Other irregularities	24	1.43
Total		**60**	**413.74**

During the course of the year 2010-11, the Department accepted 85 cases involving revenue of ₹ 35 lakh, of which, 19 cases pertained to 2010-11 and the rest to earlier years. The Department recovered ₹ 5.50 lakh during 2010-11 in 13 cases.

A performance audit of **"Computerisation in the Transport Department"** and few illustrative cases involving ₹ 46.75 lakh are mentioned in the following paragraphs.

4.8 Performance audit on "Computerisation in the Transport Department"

Highlights

- Lack of a well defined IT strategy/policy affected the mechanism of measuring and monitoring the progress of computerisation project, besides, hampering the implementation of revised rates.

(Paragraph 4.8.7.2)

- Pending backlog data entry and capture of invalidated data in the system rendered State Register and National Register incomplete.

(Paragraph 4.8.7.3)

- Non-mapping of and blank values in columns related to tax rates in the software led to short realisation of revenue of ₹ 4.84 crore.

(Paragraph 4.8.10.5)

- Non-development of technical expertise within the department led to over reliance on NIC for system maintenance, administration and back-up.

(Paragraph 4.8.14)

4.8.1 Introduction

In order to provide faster and better services, transparency and regular monitoring of State revenues generated from implementation of the Motor Vehicle Act (MV Act) and Rules and as a part of the national project of computerisation of vehicle registration and issuance of driving licences, the Government of India (GOI) initiated development of a standardised software to be used across the country. As part of the project, '*VAHAN*'[1] and *SARATHI*'[2] softwares were developed by the National Informatics Centre (NIC) for maintenance of records of registration of vehicles and issue of driving licences respectively, in electronic form. The project aims at building a web enabled national database of all vehicles registered and driving licences issued throughout the country.

'Java' and 'Visual Basic' were languages used as front end in '*VAHAN*' and '*SARATHI*' respectively while Red Hat Linux 3.0 was used as the operating system in the server and Oracle 10g as the back end database.

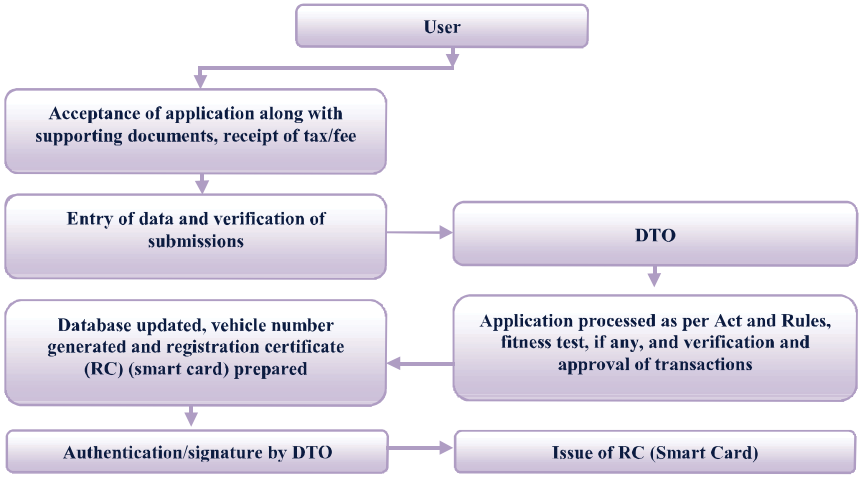
The computerisation project in Assam started in 2005 with the District Transport Office (DTO), Kamrup (R&L) and was subsequently expanded to cover the other 25 DTOs, the latest being DTO, Baksa (February 2011) which according to the Government, was expected to be completed by March 2012.

[1] *VAHAN* software captures information about the registered vehicles and their owners such as owner's name, permanent and temporary address, vehicle description such as date of registration, chassis and engine number, type and class of vehicle, etc.

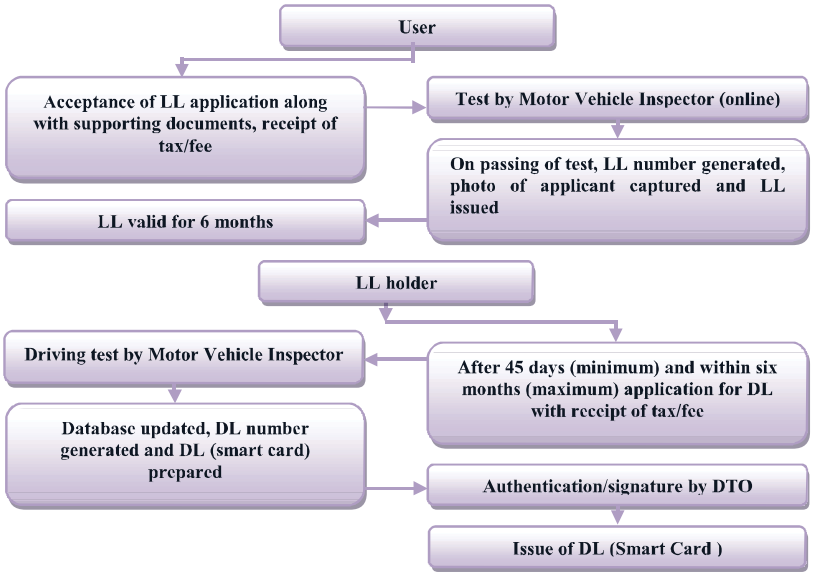
[2] *SARATHI* software captures information about the details of licence holders like name, permanent and temporary address, licence number, class of vehicles the licence holder is authorised to drive, validity period of the licence, etc.

Processes through '*VAHAN*' and '*SARATHI*'

Registration of vehicles through '*VAHAN*': Vehicles are classified as (i) transport and (ii) non-transport vehicles. Each vehicle is allotted a permanent registration number within one month of application for registration, by the jurisdictional DTO and a registration certificate (smart card) is issued through '*VAHAN*' software. Details like name of the owner, cost, engine number, chassis number, life tax paid and date of registration etc. are captured during the registration process. The workflow process of '*VAHAN*' application software is shown below:



Issue of driving licences through '*SARATHI*': An individual above 16 years of age seeking a driving licence (DL) (for two wheelers without gear) and individuals aged 18 years and above (for other vehicles) are initially issued a learner's licence (LL) valid for six months. The applicant has to clear a simple test and his/her details like name, date of birth, address are captured and subsequently, a permanent DL is issued through '*SARATHI*' for a period of 20 years or 50 years of age, whichever is earlier, on the applicant passing a driving test. The workflow process of '*SARATHI*' application software is shown below:



4.8.2 Organisational set-up

The Principal Secretary is in overall charge of the Transport Department in the Government. The Commissioner of Transport is the head of the Department who is assisted by one Additional Commissioner (who is also assigned with the monitoring of the Computerisation project), one Deputy Commissioner and one Assistant Commissioner of Transport. There are 26 district level offices[3] which are headed by district transport officers who are assisted by motor vehicles inspectors (MVI) and other officials in discharging their day-to-day functions. They are empowered to implement taxation laws and rules, including the computerisation of Transport Department.

4.8.3 Audit objectives

The objectives of the performance audit were 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 the data captured by the RTO offices were correct and complete;
- connectivity was established between DTOs in the State for creation of database of vehicles and licences and ultimately for the National Registers;
- reliable general and security controls were in place to ensure data security and audit trail besides backup of data to guard against loss of data/crash of systems;

[3] There are 29 District Transport Officers, of which, one DTO is attached to Commissioner of Transport and two DTOs are in charge of enforcement and permit of Kamrup district.

- the overall objectives of computerisation through the NIC developed computer applications of '*VAHAN*' and '*SARATHI*' were achieved; and
- an internal control mechanism was in place to monitor the implementation of the project.

4.8.4 Scope and methodology of Audit

A performance audit of the "Computerisation of the Transport Department" was conducted by us covering the period from July 2007[4] to March 2011. We test checked (July-December 2011) the records relating to the implementation of the computerisation project in MVD. The data furnished by the DTOs were scrutinised using the generalised audit software – IDEA (Interactive Data Extraction and Analysis). The results of queries were compared with the information maintained in the physical records/documents available at the DTOs. Six[5] out of 26 DTOs were selected based on random sampling. Besides, we examined the application software for its correctness, completeness and adequacy of controls. The output generated by the system and its use was also examined by us.

4.8.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of Transport Department in general, in providing necessary data/information for audit. An entry conference was held in June 2011 with the Commissioner of Transport in which the scope, objectives and methodology of the performance audit were explained. After completion of audit, the draft performance audit Report was issued to the Government/Department in November 2011 and discussed in an exit conference in December 2011. The Principal Secretary, Transport Department and the Commissioner of Transport, Assam attended the meeting on behalf of the Government and Department respectively, while the Technical Director and Scientist represented the NIC, State Unit, Assam. The replies furnished by the Government and the Department during the exit conference and at other points of time have been suitably incorporated in the respective paragraphs. The Government and Department have accepted all our recommendations and agreed to process them for implementation.

[4] Though the computerisation project was initiated in 2005, actual implementation of 'VAHAN' and SARATHI' started in July 2007.

[5] Dibrugarh, Jorhat, Kamrup (R&L) Nagaon, Nalbari and Sivasagar.

Audit findings

System deficiencies

4.8.6 General Controls

General controls include controls over data centre operations, system software acquisition and maintenance, access security, application system development and maintenance. These create the environment in which the application systems and application controls operate.

4.8.7 Planning and implementation

Development of a system, a component of general controls, requires adoption of a well established life cycle which includes a conceptual plan, detailed system study, formulation of System Requirement Specifications (SRS) as well as User Requirement Specifications (URS) and a System Design Document (SDD). Before taking up an IT project it is necessary to evolve a long/short term IT policy addressing the methodology of developing, acquiring, implementing and maintaining the information systems and related technology.

Our scrutiny of the planning and implementation aspects revealed the following deficiencies:

4.8.7.1 Implementation of '*VAHAN*' and '*SARATHI*'

We observed that

- the permit and enforcement wings of the DTOs were not computerised and consequently, the modules relating to these two wings were not being implemented.
- In two[6] out of the six selected DTOs, the module for allotment of fancy numbers was not used and the fancy numbers were being issued manually while in three DTOs[7] registration of commercial vehicles was not yet computerised.
- 99 out of a total 162 master tables in the database of all the six selected DTOs were blank.

Thus, as of October 2011, the Department was yet to use all the modules/tables available in the software as enforcement and permit modules were still being performed manually. Due to partial implementation of the computerisation project in the DTOs, the Department could not derive the

[6] DTO, Nagaon and Sivasagar.
[7] DTO, Dibrugarh, Jorhat and Sivasagar.

benefits of maintenance of data/record in electronic form including ease of storage and quick retrieval of data/information.

The Department stated during the exit conference that the project was being implemented in a phased manner. However, they could not provide any documented time schedule planned for implementation of the project in a phased manner which could provide a benchmark to the Department to assess the performance and ensure timely implementation of various phases of the project.

After we pointed this out, the Government in their reply stated (December 2011) that computerisation was an ongoing process and after stabilisation of the core aspect i.e. "*VAHAN*" and "*SARATHI*", simultaneous operations, like Permit and Enforcement wing could be included in the computerised system. Regarding issue of fancy numbers manually, it was stated that DTO, Nagaon has started issue of fancy numbers through computer and other DTOs were directed to do the same. As regards the master tables remaining blank, the Government stated that these tables could be effectively used only after stabilisation of the project.

The Government may consider taking appropriate steps for early implementation of both the softwares in all the DTOs through a dedicated action plan so that the desired results can be derived.

4.8.7.2 Absence of IT strategy/policy and documentation

We observed that the Department had not formulated and documented the IT strategy/policy. In the absence of a well defined IT strategy/policy, the Department was deprived of a benchmark to measure the progress in implementation of the computerisation project. This also affected the mechanism for monitoring the implementation of the project by higher authorities. Besides, absence of a strategy/policy also hampered implementation of revised rates of taxes as mentioned below.

The Government of Assam revised (24 May 2011) the rates of registration fee and notified (4 August 2011) that the new rates would take effect from 1 September 2011. However, due to delay by the Department in communicating the rates to NIC, these changes could be made effective only from 13 September 2011, that too, on a trial basis. Consequently, the DTOs had to issue manual receipts for the differential amount (amount calculated by the system minus amount to be collected as per the revised rates). Had the DTOs not initiated prompt action and resorted to manual collection of differential taxes, there could have been serious implication and resultant short realisation of taxes.

Further, documents related to the project like SRS and SDD prepared by the system developer (NIC) were not handed over to the Department. We, therefore, could not verify the adequacy of these documents.

After we pointed this out, the Government in their reply stated (December 2011) that the project is a part of the National Policy of IT used in the Transport sector. A separate policy had thus not been felt necessary and the software has been evolving according to the requirements of the system. They

also stated that SRS, URS and SDD are yet to be finalised and frozen for distribution by NIC.

We recommend that the Department may formulate a well defined IT strategy/policy for effective and efficient implementation of the project.

4.8.7.3 Pending backlog entry led to incomplete State Register and National Register

Successful application of software would largely depend on the completeness, authenticity and reliability of data entered into these. Details of backlog (pre-computerisation) data of vehicles registered and driving licences issued manually were required to be entered into the system, on priority.

We noticed that as many as 4,89,544 records pertaining to DTO, Kamrup were yet to be captured in '*VAHAN*' and '*SARATHI*' application. The other five DTOs did not make any assessment of backlog data. We observed that in practice, the backlog entries were captured only when the vehicle owner approached the department for any further transaction including payment of tax. We feel that the basic objective of creation of State/National register (SR/NR) would be achieved only when the database is complete with details of all vehicles and licence holders including those pertaining to pre-computerisation period. Consequently, the Department could not complete the SR thereby leading to non-alignment of the SR with the NR.

After we pointed this out, the Government during the exit conference admitted that there was huge backlog data and stated that backlog data entry will be started with DTO, Kamrup (R&L).

We recommend that the Department formulate a specific target date for entering backlog data into the software and the work be monitored properly to ensure timely completion.

4.8.8 Application Controls

Application controls include controls that help ensure proper authorisation, competence, accuracy and validity of transactions and other types of data input e.g. to check possible invalid input and system enforced transaction controls that prevent users from performing unauthorised transactions. It helps to minimise the risk of incorrect data entry by making validation checks, duplicate checks and other related controls. These provide the earliest opportunity to detect and correct possible mistakes.

Input Controls

4.8.9 Non-validation of data entry

The database of any computerised system has to be correct and complete in all respects. To ensure this, the procedures and controls should guarantee that the data received for processing is genuine, complete, accurate and properly authorised.

We observed that though the software provided for capturing the particulars of vehicles available in the Combined Register[8] in the database, there were errors and omissions in entering the data into the system.

Our scrutiny revealed the following deficiencies which occurred due to lack of data validation checks.

4.8.9.1 RC issued beyond the permissible period

Section 41 (7) of the MV Act, 1988 (the Act) provides that a certificate of registration (RC) in respect of a motor vehicle, other than a transport vehicle, shall be valid for a period of 15 years from the date of issue of certificate and shall be renewed as per provisions of the Act. After expiry of 15 years, the RC shall be renewed for every five years as per Rule 52 (2) of the Central Motor Vehicles Rules, 1989.

During analysis of the database in the selected DTOs, we noticed that in 1,078 cases of four wheelers registered between February 1956 and August 2011, RCs were issued with validity of more than 15 years. Since the database is designed to replace the Combined Register in the long run, it is expected to serve as a vital control register for the DTOs for monitoring validity of registration and tax payments by vehicle owners. Erroneous entries in the database would thus result in non-raising of alert by the system at the end of 15 years' registration span leading to plying of vehicles without valid registration and fitness thereby compromising safety of public property and human lives coupled with non-realisation of revenue in the shape of registration fees and road tax.

Our verification of the above findings with reference to manual records (five cases[9]) indicated that RC was granted for 15 years and subsequently renewed for five years on realisation of due fees and taxes. Thus, in respect of test checked cases, the software did not reflect the date of renewal of RC and contained only the initial date of registration.

[8] The register contains the details of a vehicle viz. owner details including address, registration number, date of purchase, model, manufacturing year, capacity, tax payment particulars, hypothecation etc.

[9] DTOs: Kamrup (two cases) and Nalbari (three cases).

After we pointed this out, the Government in their reply stated (December 2011) that the DTOs have been instructed to do a system check and make the required corrections.

4.8.9.2 Blanks in the database

Scrutiny of the database relating to '*VAHAN*' and '*SARATHI*' revealed that many crucial fields like 'unladen' weight in the case of private motor cycle and laden weight in the case of goods vehicle on which tax was calculated were left blank or shown as "information not available". Further, in a number of cases, the amount against fields like sale amount, *challan* amount were entered as 'zero'. Details are shown below:

Field	Field details (blank/zero/negative)	Number of cases
Father's name	**Blank**	204
Address		18
Maker model		1,761
Horse power (HP)		305
Engine No.		184
PAN No.		2,69,845
Cubic capacity		289
Receipt No.		1,251
No. of cylinder	**Zero**	363
Seating capacity		455
Unladen weight		289
Laden weight		1,33,283
Manufacture month		7,226
Manufacture year		204
Sale amount		1,43,069
Purchase date		143
Unladen weight zero in two wheelers		24
Challan amount		3,859

(Source table : *VAHAN*_VT_Owner and *SARATHI*_DDLicence)

Our verification of manual records (14 cases[10]) revealed that the errors occurred at the time of data entry only which the system failed to check.

After we pointed this out, Government in their reply stated (December 2011) that appropriate action would be taken to fill in the blanks and also efforts will be taken to pre-empt such errors in future.

4.8.9.3 Non-validation of data entry resulting in key fields containing incorrect values

Our analysis of the database in six test checked offices revealed that the following fields contained incorrect/unrealistic data as detailed below:

[10] DTO: Kamrup.

Sl. No.	Field name	Kamrup	Dibrugarh	Jorhat	Nagaon	Nalbari	Sivasagar	Total
'VAHAN'								
1.	Seating capacity of two wheelers more than two	97	11	43	21	4	26	**202**
2.	Unrealistic sale amount	98	7	0	10	2	0	**117**
3.	Insurance valid for more than one year	7,726	14	7	64	39	18	**7,868**
4.	Registration date prior to purchase date	2	0	0	0	0	0	**2**
'SARATHI'								
5.	DL issued after expiry of LL	5,290	255	103	0	805	556	**7,009**
6.	LL issue date is after DL issue date	632	7	12	136	8	2	**797**
7.	DL issued before 45 days of issue of LL	1,498	1,388	8	206	47	80	**3,227**
8.	DL issued for five years to persons above 100 years of age	5	0	0	0	0	0	**5**
9.	Unrealistic Blood group as "U"	55,410	302	26	5,911	6,362	32	**68,043**
10.	Date of birth after DL issue date	1	0	0	0	0	0	**1**
11.	Unrealistic *challan* amount of DL	1	0	0	0	0	0	**1**

Our verification of physical records (nine cases[11]) revealed that there was error in data entry. Absence of validation checks allowed entry of invalid data making the database unreliable.

After we pointed this out, the Government while accepting our observation stated (December 2011) that the software would be modified to block incorrect entries.

4.8.9.4 Existence of duplicate entries

Chassis numbers, engine numbers and registration numbers are unique identification marks of a vehicle which are essential for the purpose of its registration under the provisions of the MV Act.

Our analysis of the database indicated cases of duplicate entries in the database. Out of 2,72,311 vehicles registered in the six test checked DTOs, 99 vehicles were registered with duplicate chassis numbers and 584 vehicles were registered with duplicate engine numbers and such duplication occurred two to three times. In 27 instances, vehicles having same engine and chassis numbers was registered twice and allotted with two different registration numbers.

Further, in 79,019 cases there were duplicate insurance cover notes which raised doubts on the bonafides of the insurance certificate/cover notes in the cases of vehicles so registered. Duplication of registration is not only illegal

[11] DTO: Kamrup.

but also poses the risk of plying invalid/stolen vehicles, besides leading to non levy of tax and legal complications for the bonafide owners in case of accidents, theft, security etc., and generating incorrect MIS data. Verification of manual records (10 cases[12]) also confirmed the fact.

After we pointed this out, the Government while accepting our observation stated (December 2011) that the DTOs have been asked to be more cautious while registering vehicles.

4.8.9.5 Unrealistic sale amount of vehicles

Analysis of data revealed that sale amount of vehicles ranged between ₹ 50 lakh and ₹ 90 crore in 117 cases. For instance, we found data in respect of four wheeler (Safari VX) involving sale amount as ₹ 50 lakh while in case of a motor cycle the sale amount was entered as ₹ 90 crore, which were unrealistic. Verification of manual records (two cases[13]) revealed that there were data entry errors which the higher authority failed to detect.

The aforesaid deficiencies are indicative of defective data entries, improper data validation checks and also inadequate supervisory controls over the input to ensure accuracy of data. Consequently, information generated out of the system when connected with SR and NR would not be authentic and reliable, besides leaving scope for manipulation in revenue collection and use of the vehicle.

After we pointed this out, Government while accepting our observations stated (December 2011) that the DTOs are being asked to verify anomalies in the entry and NIC has been asked to build-in necessary system checks, to prevent erroneous entries.

We recommend that the Department ensure that validation controls are built into the system to avoid entry of unauthorised and inconsistent data. The Department may investigate cases of duplicate registration, chassis, engine and insurance cover notes noticed in audit.

4.8.10 Processing Control

Processing controls are application controls that ensure complete and correct processing of input data. They also ensure that incorrect transactions are not processed.

Our scrutiny revealed the following deficiencies in processing of data:

[12] DTOs: Kamrup (five cases), Nalbari (two cases) and Sivasagar (three cases).
[13] DTO: Kamrup.

4.8.10.1 Lack of continuity in assigning registration numbers

The Act provides that a registering authority shall assign a unique mark in a series to every vehicle at the time of registration. Unless the current series is exhausted, no new series should be taken up for allotment.

Scrutiny of the data of six selected DTOs revealed that before the current series of registration numbers got exhausted, registration in the next series was allotted as mentioned below:

Name of DTO	Series No.	Total registration numbers available	Total numbers issued	Gaps
Kamrup	AS01AH	9,999	9,704	295
	AS01AJ	9,999	9,729	270
Jorhat	AS03F	9,999	7,333	2,666
Dibrugarh	AS06J	9,999	9,552	447
Nagaon	AS02G	9,999	9,868	131
Nalbari	AS14B	9,999	5,352	4,647
Sivasagar	AS04H	9,999	9,523	476

Scrutiny of data in the above DTOs further revealed that while allotting the registration numbers, chronological order was not maintained and there were gaps in the registration numbers ranging from five to 101 as illustrated below.

Series no.	Gaps detected	Numbers
AS01AH	3667 TO 3671	5
	4519 TO 4530	12
	5134 TO 5151	18
AS01AJ	2305 TO 2310	6
	5841 TO 5850	10
AS06J	9898 TO 9999	101

The gaps in the chronological order of registration numbers would give an incorrect position of the total vehicles registered on a given date, besides allowing scope for misuse of unused registration numbers.

We recommend that the registration numbers other than fancy/choice numbers should be generated automatically by the system so that no number is left unused.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the DTOs have been instructed to exhaust issue of all numbers of a particular series, before going to the next one.

4.8.10.2 Purchase date does not change even in case of second owner

Analysis of 'VAHAN_VT_OWNER' table[14] and VAHAN_VH_P_OWNER table[15] conducted by us revealed that the date of purchase of the vehicle in case of resale is not updated in the VAHAN_VT_OWNER table and it shows

[14] The table contains the details of the owner of a vehicle including the date of purchase.
[15] The table contains details of previous ownership of a vehicle if it is resold.

the initial date of purchase of vehicle by the first owner. It was found that the database does not depict the actual date of purchase by the second/subsequent owner in the VAHAN_VT_Owner table.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the issue would be taken up with NIC and necessary safeguards would be built into the system.

4.8.10.3 Date of birth not matching in '*SARATHI*'

Driving licences are used as authorised proof of identity in various areas such as opening of bank accounts, application of Income Tax Permanent Account Number, etc.

We noticed that date of birth (DOB) in driving licence (DL) and learner's licence (LL) were different in 344 records. In 182 cases, the DOB in DL was a date which was subsequent to that mentioned in LL. In 162 cases, DOB in LL was later than the DOB in DL. Lack of proper application control in the software resulted in mismatch in this vital field which is fraught with risk of manipulation. Our verification of manual records (seven cases[16]) revealed that in one case the date of birth mentioned by the applicant was different in the application form for LL and DL which could not be detected due to lack of application control in the system.

After we pointed this out, Government while accepting our observation stated (December 2011) that a software control has since been provided in new version of *SARATHI* which is under development.

4.8.10.4 Short realisation of fee for fancy number

As per sub-section (6) of section 41 of the Act, choice or fancy numbers are provided to owners of motor vehicles on payment of a prescribed fee. The Government of Assam had fixed (June 2010) the fee for choice or fancy number at ₹ 4,000.

Analysis of data revealed that in 27 cases though fancy numbers like 0022, 4444, 1313, 6161 etc., were issued to the vehicle owners, fees of only ₹ 500 was realised in each case against the prescribed fee of ₹ 4,000.

We further verified this with the manual records (six cases[17]) which confirmed the fact. There was thus, short realisation of ₹ 3,500 in each case totaling to ₹ 94,500 in the 27 cases checked in audit.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the DTOs had been asked to recover arrear dues.

[16] DTOs: Kamrup (four cases) and Nalbari (three cases).
[17] DTOs: Kamrup (five cases) and Sivasagar (one case).

4.8.10.5 Short realisation of road tax

The Government of Assam revised (May 2005) the rates of tax leviable on personalised vehicles as one time tax as mentioned below.

SCHEDULE See Section 4, 4A(3) and 4A(4) One Time Tax on personalised vehicles			
Article No.	**Description of Vehicles**	**Rate of One-Time tax for 15 years**	**Tax for every 5 years after 15 years (In ₹)**
1(A)	New personalised four wheeler vehicles		
(a)	Original cost price upto ₹ 3 lakh	3 *per cent* of the original cost	5,000
(b)	Original cost price upto ₹ 15 lakh	4 *per cent* of the original cost	7,000
(c)	Original cost price above ₹ 15 lakh	5 *per cent* of the original cost	10,000

Analysis of data revealed that in 836 cases of private four wheelers (registered between16 July 2005 and 21 April 2011), tax of ₹ 87 lakh was shown to have been collected. However, as per the revised rates effective from 17 May 2005 to August 2011, revenue of ₹ 5.71 crore was to be collected. Thus, there was short realisation of ₹ 4.84 crore, reasons for which needs to be looked into by the Department. In these cases, verification with manual records could not be done as the case files did not contain copies of receipts issued to vehicle owners.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the matter would be investigated with the assistance of NIC.

We recommend that the Government may ensure mapping and incorporating proper values in the columns/tables for inter-operability of the tables and automated calculation of correct rates of taxes.

4.8.11 Output Controls

Output controls are the processing controls which ensure that the output is complete, accurate, timely and is correctly distributed.

4.8.11.1 Non-generation of automated MIS reports

Our scrutiny indicated that though there was a provision in the system for generation of automated reports viz., demand notice of tax to defaulting vehicle owners (both private and commercial), monthly/quarterly reports to ascertain the position/status of tax realisation of vehicles (tax due for collection and that collected), etc., the same was not utilised by the Department due to lack of awareness among the users. These reports would have served as an important tool for monitoring proper and timely collection of revenue/arrears of revenue.

Our scrutiny in DTOs, Jorhat and Nagaon revealed that in respect of 138 commercial vehicles, road tax amounting to ₹ 24.70 lakh including fine, was not realised. Had these reports been generated timely, these cases could have been detected by DTOs and consequently demand notices could have been served for collection of revenue that had remained in arrears.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the NIC has been asked to give a demonstration for MIS reports so that the same could be used to generate demand notices in case of defaulting vehicles and steps were being taken to update combined registers by 15 January 2012.

4.8.12 Security Controls

4.8.12.1 Physical and logical access controls

Physical access controls are aimed at ensuring that only those officers/officials who have been authorised by the management have physical access to the computer systems.

We observed that the hardware (including the server, network and switches etc.) was freely accessible making these vulnerable to physical threats from unauthorised persons. For instance, in DTO, Nagaon we noticed that the servers of both the Department as well as AMTRON[18] were placed in a small congested room in the ground floor, near the windows, along with UPS, batteries, camera and printers installed for taking photographs for smart cards. We further noticed that there was no fire detection/fighting equipment or fire extinguishers to fight any contingency in any of the selected DTOs.

A view of the server room of the office of the DTO, Nagaon is depicted below:



Pictures of server room of DTO, Nagaon depicting congestion, unrestricted entry and stocking of papers on the servers, UPS and batteries.

[18] M/s AMTRON has been outsourced for issue of smart cards of registration certificates.

Our analysis of the logical access controls indicated the following deficiencies:

- The system has no restriction on the number of logs in case of attempts by unauthorised users to log into the system.
- The Department had neither undertaken any risk assessment nor put any password policy in place thereby rendering the system vulnerable to misuse as evident from the fact of fraudulent issue[19] of 195 smart cards.
- No awareness has been created among the users regarding periodical change of password.

We also observed that the user IDs and passwords were being shared among users. The situation was fraught with the risk of data manipulation, misuse and unaccountability.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the issues raised by audit would be communicated to NIC for making necessary changes/modifications in the system. Also, the DTOs have been instructed to issue unique passwords to different users.

4.8.12.2 User restriction to modify database not provided

During scrutiny of the software we observed that the system did not restrict users from modifying/changing the database. For instance, a Motor Vehicle Inspector (MVI) can enter into the system with his own user ID and modify the status of fitness of a vehicle which has been declared fit/unfit by another MVI. Since fitness certificates are to be issued to the vehicles after proper verification of the records/vehicles by the concerned MVI, manipulation of such vital entries in the database should not be allowed by the system in general. In exceptional cases like MVIs proceeding on leave/transferred, these changes/modifications could be allowed, and that also after authorisation of the concerned district transport officer.

After we pointed this out, the Government while accepting our observations stated (December 2011) that the matter will be taken up with NIC for modifying the system.

The Department may consider ensuring the safety and security of data and restricting access only to the authorised persons.

[19] As detected by the departmental authorities and FIR filed with police dated 28.6.2010.

4.8.13 Non-documentation of the business continuity and disaster recovery plan

Business continuity planning is necessary for recovery of business processes, with minimum loss to business and minimal downtime, in the event of a disaster. Considering the criticality of the system, the Department was required to formulate, document and test disaster recovery plans and ensure that staff were made aware of their responsibilities to ensure business continuity.

We observed that the Department neither documented nor tested its business continuity and disaster recovery plan. We noticed that there were instances of system crash in Nalbari and Sivasagar DTOs, though, no loss of data was reported. We further observed that a policy for taking backup of critical data at regular intervals and storing it at remote locations to ensure continuity of operations in case of a disaster was also not framed.

We recommend that the Department may draw up an IT security policy with a credible threat assessment mechanism, disaster recovery and business continuity plan to derive optimum output from the system.

After we pointed this out, Government while accepting our observations stated (December 2011) that the database is backed up at Hyderabad Data Centre of NIC and SR and NR in separate locations for disaster recovery. However, the reply was silent regarding the documentation and testing of such a policy which is vital for continuity of business.

4.8.14 Non-development of technical expertise within the Department

Any IT system though initially developed/implemented through outsourcing has to be invariably taken over by the user Department, eventually, by developing required expertise. The data captured through '*VAHAN*' and '*SARATHI*' is very critical since it involves personal data relating to the vehicle owners, insurance details besides revenue particulars etc.

We observed that though the employees of the Department (regular as well as non-regular staff) handle entire data entry at the departmental counters, database administration was, however, handled by NIC. We noticed that the Department is yet to initiate steps to develop expertise within the Department for handling the database administration functions which meant an over-dependence on NIC for system maintenance, administration and back-up. Lack of training/awareness of staff resulted in 'fancy' numbers issued in DTO, Nagaon and Sivasagar not getting reflected in the relevant table viz. VAHAN_VT_Fancy Register which not only resulted in incorrect reflection of data but was also fraught with security risks.

Though the Department stated that user manuals on *'VAHAN'* and *'SARATHI'* were provided to the users, we noticed that in five[20] out of six offices test-checked, no training was provided to the staff working in the system and the data was entered by casual employees/persons other than regular staff.

Considering the importance of the data maintained in '*VAHAN*' and '*SARATHI*', we recommend that training of staff may be undertaken on priority, with a strategy for eventual independent handling of all supporting functions of the project.

After we pointed this out, Government while accepting our observations stated (December 2011) that a plan to set up a separate IT cell in the Department has been proposed and NIC will keep providing technical support till setting up of the IT cell. Further, during the exit conference the Government stated that due to budgetary constraints, recruitment of IT literate personnel could not be done.

4.8.15 Lack of inter-connectivity among DTOs

For the system to be fully functional, the project envisages networks for inter-connectivity between the Commissioner of Transport (CoT) and DTOs on a real time basis.

We found that inter-connectivity between the CoT and DTOs was yet to be established. Cross verification of data of the six selected DTOs revealed that in six cases vehicles with the same chassis number were registered in different DTOs in the names of different persons. Had the DTOs been inter-connected on a real time basis, subsequent entry of the same chassis number would have been restricted by the system. Lack of validation checks led to duplicate data remaining untraced while updating the SR and NR.

After we pointed this out, the Government stated (December 2011) that the DTOs were connected with NIC Centre, Guwahati and New Delhi. However, we found that the same was not on a real time basis, which alone could have prevented duplicate entries.

We recommend that steps may be initiated to ensure that the systems of the Commissionerate and the DTOs are inter-connected on a real time basis through a specific action plan with timelines.

4.8.16 Lack of monitoring and internal control mechanism

Though computerisation commenced in 2005, internal audit was not conducted. As a result the Department could neither derive an assurance on the working of the computerised system nor could they detect the deficiencies and errors noticed during the course of our audit.

The internal control mechanism, particularly relating to the computerisation project was weak as evidenced by the following.

[20] DTOs: Dibrugarh, Jorhat, Nagaon, Nalbari and Sivasagar.

- There was no system of generating logs for recording actions of users which could have provided the system administrators and the management, a certain degree of control on authorisation and delegation of power.
- Involvement of senior management in implementation of the project was found to be deficient as there was no monitoring of data entry as evidenced by large number of incorrect/unrealistic data discussed in some of the preceding paragraphs.

After we pointed this out, the Government accepted our observations (December 2011).

We recommend that the Department may ensure that periodic internal audits are conducted and internal controls at various levels are strengthened.

4.8.17 Non-monitoring of IT assets

The total cost of the hardware purchased and installed in all the offices was ₹ 2.54 crore by the State. Further, NIC Guwahati also provided hardware (44 nos. of servers, 203 nos. of computers, 166 nos. of printers and 18 nos. of UPS). However, we noticed that neither the register of IT assets was maintained nor was any record of issue/receipt of hardware kept in any of the selected offices.

After we pointed this out, the Government while accepting our observation stated (December 2011) that the stock registers were being reconstituted.

4.8.18 Conclusion

The computerisation project of Transport Department has been initiated in Assam as a part of the national project of computerisation of vehicle registration and issuance of driving licences with the aim of building up a web enabled national database throughout the country. A validated, reliable and complete database is a pre-requisite for achieving the same. Our audit of the computerisation of Transport Department in Assam revealed a number of deficiencies as mentioned below.

- The Department was yet to formulate a well defined IT strategy/policy which hampered effective implementation of the project.
- There was delay in commissioning the project. Even after a lapse of five years and incurring a total expenditure of ₹ 2.54 crore, all the modules were not operational and some applications were still being done manually since the level of assurance derived from the system was very low.
- Deficiencies in input controls led to defective data entries, improper data entries/data validation checks and inadequate supervisory controls over the input rendered the data inaccurate and unreliable.
- Lack of processing and output controls led to unmatched date of birth etc., and non-generation of automated reports.

- The Department did not test and document its IT security policy, disaster recovery and business continuity plan; and
- Non-entry of the backlog data, duly validated, in the software defeated the purpose of creation of a complete SR/NR.

4.8.19 Summary of recommendations

The Government/Department may consider implementing the following recommendations:

- taking appropriate steps for early implementation of both *VAHAN* and *SARATHI* in all the DTOs through a dedicated action plan so that the desired results can be derived;
- formulating a well defined IT strategy/policy for effective and efficient implementation of the project;
- formulating a specific target date for entering backlog data into the software;
- ensuring that validation controls are built into the system to avoid entry of unauthorised and inconsistent data;
- ensuring the safety and security of data and restricting access only to the authorised persons;
- drawing up an IT security policy with a credible threat assessment mechanism, disaster recovery and business continuity plan to derive optimum output from the system;
- imparting training to the staff on priority, with a strategy for eventual independent handling of all supporting functions of the project; and
- ensuring that the systems of the Commissionerate and the DTOs are inter-connected on a real time basis through a specific action plan.

4.9 Audit observation

Our scrutiny of the records of the Transport Department revealed several cases of non-observation of the provisions of Acts/Rules/departmental orders as mentioned in the succeeding paragraph. These cases are illustrative and are based on test checks carried out by us. Such omissions on the part of the departmental officers are pointed out by us each year, but not only do the irregularities persist, these remain undetected till we conduct subsequent audit. We are concerned as these observations are also sent to the higher authorities including the Government each time these are detected, but the Government or the Department did not take sufficient measures to monitor the status and arrest their recurrence. There is a need for the Government to strengthen their control and monitoring mechanism including regular internal audit so that these omissions can be prevented, detected and corrected.

4.10 Non-realisation of motor vehicle tax

[District Transport Officers, Bongaigaon, Goalpara, Golaghat, Morigaon, Nagaon, Kamrup (Registration & Licensing) and Karbi Anglong; January and July 2010]

The Assam Motor Vehicles Taxation Act, 1936 provides that taxes on motor vehicles are to be paid in advance on or before 15 April of each year or optionally in four equal installments payable on or before 15 April, 15 July, 15 October and 15 January respectively. The Act also provides that every owner of a motor vehicle who fails to pay the appropriate road tax in time shall be liable to pay a fine at a rate of ₹ 5 per day of such delayed payment with effect from 9 May 2002.

Further, as per the provisions of the Act, the district transport officer is required to maintain a combined register to watch the recovery of tax. He is also required to review the register at periodic intervals and issue demand notices to defaulters.

We observed from the combined registers of the above DTOs that the owners of motor vehicles in 573 cases did not pay road tax of ₹ 65.78 lakh for various periods falling between April 2000 and June 2010. In addition to non-realisation of road tax of ₹ 65.78 lakh, fine at prescribed rate of ₹ 5 per day was also leviable in these cases for non-payment of dues within the stipulated time. This indicates that there is a need to reinforce the review mechanism by the district transport officers so that demand notices to the defaulting vehicle owners for recovery of the dues are issued in time and regularly.

After we pointed this out, the DTOs, Golaghat, Kamrup and Nagaon stated (between June and August 2011) that review of the cases pointed out by audit indicated that owners of 94 vehicles had already paid their dues but the same were not entered in the combined register; demand notices were since issued in 79 cases involving tax and fine of ₹ 22.61 lakh, of which, ₹ 4.97 lakh was recovered from 13 vehicle

owners. Replies from remaining three DTOs involving revenue of ₹ 24.14 lakh have not been received (August 2011).

Replies of the DTOs highlighting instances of not entering tax payment details in the combined registers in 94 cases and issue of demand notices to 79 vehicle owners for payment of dues and recovery of considerable amount of revenue after our intervention substantiate the fact that the combined registers were not being reviewed regularly by them. Besides, non-entry of payment details in combined registers resulted in these registers not showing true and fair position of payment of tax by vehicle owners and/or arrears recoverable. This defeated the basic objective of maintenance of such control registers.

We recommend that the Department/Government issue suitable instruction to DTOs making it mandatory for them to review the combined registers at regular intervals and ensuring recovery of revenue from defaulters without delay.

We reported the cases to the Department/ Government between February and August 2010 and followed up between January and April 2011; we are yet to receive their replies (August 2011).



CHAPTER – V
OTHER TAX RECEIPTS

5.1 Results of audit

Our test check of records in 35 offices dealing with the following revenue receipts during 2010-11 revealed non/short realisation of revenue amounting to ₹ 311.41 crore in 80 cases as shown in Table 1.

Table 1

Results of audit

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Assam Taxation (On Specified Lands)	12	299.10
2.	Profession tax	12	0.10
3.	Land Revenue	35	9.04
4.	Stamp duty and Registration fee	21	3.17
Total		**80**	**311.41**

The concerned departments have accepted six cases involving money value of ₹ 15.31 crore pointed out during 2010-11 and recovered ₹ 15.14 crore in three cases.

A few illustrative audit observations involving revenue implication of ₹ 1.72 crore are mentioned in the following paragraphs.

5.2 Audit observations

Our scrutiny of the records of the Land Revenue, Revenue (Registration) and Taxation Departments revealed several cases of non-observation of the provisions of Acts/Rules/departmental orders. Some illustrative cases based on test checks carried out by us are mentioned in succeeding paragraphs. Such omissions on the part of the departmental officers are pointed out by us each year. However, not only do the irregularities persist, these remain undetected till we conduct subsequent audit. We are concerned as these observations are also sent to the higher authorities including the Government each time these are detected. This underlines a need for the Government to ism so that the irregularities are

The AVAT Act stipulates that if the owner, dri

LAND REVENUE

5.3 Non-remittance of revenue

inga, Kalgachia, and Kampur Revenue Circles, between January and November 2010]

neys received on behalf of the Government shall, without any delay, be deposited into the Government account. The Land Revenue Department instructed (March 1996) that the *mouzadars* are allowed to retain cash in hand upto a maximum of ₹ 10,000 with regard to land revenue collected by them. For any amount held in excess over this limit, the concerned *mouzadar* shall be required to pay, not only the excess amount held by him, but also interest at 18 *per cent* per annum in respect of this excess amount for the period held by him.

We observed that 13 *Mouzadars*[1] under the aforesaid circle offices collected land revenue of ₹ 2.85 crore, of which ₹ 1.82 crore was remitted into the Government account, leaving ₹ 1.03 crore[2] in hand as on the dates of audit[3]. Such retention of revenue out of Government accounts was not only unauthorised but amounted to temporary mis-appropriation of Government money as well. Besides, for non-remittance of revenue into the Government account, interest of ₹ 47.84 lakh (calculated upto March 2011) is realisable from the defaulting *Mouzadars*. Details are shown in **Annexure – III.**

[1] Revenue officers appointed under Section 124 of the Assam Land and Revenue Regulation, 1886.
[2] After allowing the maximum permissible retention amount of ₹ 10,000 in each case.
[3] falling between December 2009 and October 2010.

xirhat check post whereas during the same period

Non-remittance of revenues collected by the *Mouzadars* is a persistent irregularity and has been highlighted by us in previous Audit Reports; the Government/Department is yet to take concrete steps to ensure remittance of the revenue retained by the *Mouzadars* and arrest recurrence of the same which is a matter of concern.

After we pointed this out, the circle officer in-charge of Garubat, Kampur and Kathiatoli *mouzas* under Kampur Circle stated (May 2011) that the *Mouzadars* were reluctant to deposit the excess amount of cash with them beyond the permissible limit. We have not received replies from other circle officers (August 2011).

We have reported the matter to the Department and Government between February and December 2010 and followed up between February and July 2011. We have not received their replies to any of our correspondences (August 2011).

PROFESSION TAX

5.4 Non-realisation of profession tax

[Assistant Commissioners of Taxes (ACT), Golaghat, Guwahati Unit – B and C; between May and September 2010]

The Assam Professions, Trades, Callings and Employments Taxation Act, 1947, provides that every person who carries on a trade, or who follows a profession or calling, or who is in employment within the State is liable to pay for each financial year a tax at the prescribed rates. Further, as per amendment made to the Act in April 1992, if a non-Government employer or enrolled person fails to pay tax within the due date, he shall be liable to pay simple interest at the rate of two *per cent* of the amount due for each month or part thereof for the period for which the tax remains unpaid.

5.4.1 We observed that 30 registered dealers under the above unit offices did not pay profession tax of ₹ 2.83 lakh from 2002-03 to 2009-10. The assessing officers of these unit offices did not review the case records and detect non-payment of profession tax. This resulted in non-realisation of ₹ 4.64 lakh including interest of ₹ 1.81 lakh.

5.4.2 Verification of the records of the District Transport Officer (DTO), Golaghat indicated that though owners of 49 commercial vehicles had registered their vehicles and were paying tax under the Motor Vehicles Act, they did not pay the profession tax for the period 2006-07 to 2009-10. This resulted in non-realisation of profession tax of ₹ 2.09 lakh. Besides, interest of ₹ 1.44 lakh was also leviable.

After we pointed this out, the ACT, Guwahati, Unit – C stated (June 2011) that ₹ 40,000 has been recovered from five dealers while the ACT, Golaghat

stated (April 2011) that the owners of 42 vehicles have stated that they are not liable to pay profession tax. The fact remains that these vehicle owners have regularly paid road tax as commercial vehicles to the concerned DTO during the period covered by audit.

We reported the cases to the Department/Government between June and July 2010 and followed up in March 2011; we are yet to receive the replies of the ACT, Guwahati, Unit – B and Government (August 2011).

REVENUE (REGISTRATION) DEPARTMENT

5.5 Short realisation of stamp duty and registration fees

[Senior Sub-Registrar, Guwahati: February 2010]

The Indian Stamp Act, 1899 (as amended from time to time), lays down that stamp duty on a lease, where the lease purports to be for a term exceeding three years, shall be calculated for a consideration equal to the amount or value of the average annual rent reserved. Further, it was judicially held by the Allahabad High Court (17 All 55) that when the lessee hypothecated certain other property belonging to him for the purpose of securing payment of agreed rent, the instrument (lease deed) is chargeable to duty both as a lease and as a mortgage. The stamp duty on lease as well as mortgage deed is calculated at the rate of ₹ 140 for every ₹ 1,000 and registration fee at the rate of ₹ 85 for every ₹ 1,000.

We observed that an instrument of lease was registered in March 2009 under which the lessor conferred upon the lessee the right to use two floors of a multistoried building comprising 16,647 sq ft for a period of 15 years. The monthly rent was fixed at ₹ 4.58 lakh with a provision for 15 *per cent* increase after expiry of every succeeding period of three years. In addition, the lessee had deposited with the lessor ₹ 30.48 lakh as interest free security deposit. On the basis of the above consideration, stamp duty of ₹ 14.64 lakh and registration fees of ₹ 8.89 lakh was realisable. However, the Senior Sub-Registrar, Guwahati realised stamp duty of ₹ 6.82 lakh and registration fee of ₹ 4.92 lakh resulting in short realisation of stamp duty of ₹ 7.82 lakh and registration fees of ₹ 3.97 lakh.

After we pointed this out, the Senior Sub-Registrar, Guwahati stated (June 2011) that the differential stamp duty and registration fees of ₹ 12.39 lakh have been assessed and District Collector, Kamrup (Metro) has been requested to recover the amount. Report on recovery is awaited (August 2011).

We reported the cases to the Government in February 2010 and followed up in April 2011; we have not received replies (August 2011).



CHAPTER – VI
FOREST RECEIPTS

6.1 Tax administration

The Principal Chief Conservator of Forests (PCCF) who is in overall charge of the Department is assisted by seven Chief Conservators of Forests (CCF) and 19 Conservators of Forests (CF). There are 58 forest divisions each headed by Deputy Conservator of Forests (DCF)/Divisional Forest Officers (DFO). The divisions are further divided into ranges and beats for ensuring effective control and supervision of the forests of the State.

The principal Acts under which the functioning of Department of Environment and Forests is governed are the Assam Forest Redgulation, 1891; Assam Sale of Forest Produce Coupes and *Mahals* Rules, 1977; Assam Minor Mineral Concession Rules, 1994 as amended and Rules and notifications/orders issued thereunder, from time to time.

6.2 Trend of receipts

The Assam Budget Manual requires that the estimates of revenue and receipts should show the actual demand including arrears due for past years and the probability of their realisation during the year. According to the Assam Financial Rules, the Finance Department is required to prepare the estimates of revenue after obtaining necessary information/data from the respective Department.

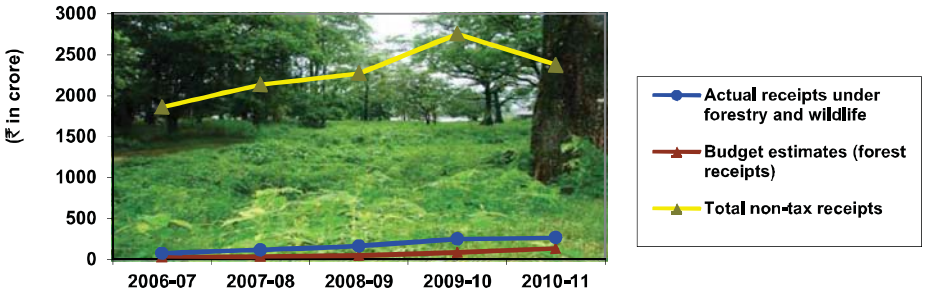
The position of budget estimates, actual forest receipts along with total non-tax receipts of the State during 2006-07 to 2010-11 are exhibited in Table 1 and graph/pie chart below.

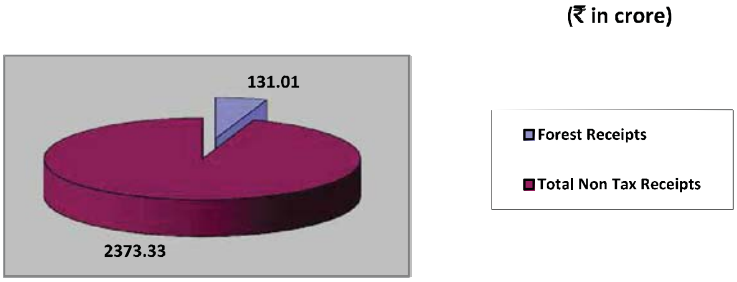
Table 1

Analysis of forest receipts

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess (+) shortfall (-)	Percentage of variation	Total non-tax receipts of the State	Percentage of col. 3 to col. 6
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	29.95	42.99	13.04	43.54	1,859.27	2.31
2007-08	37.50	75.03	37.53	100.08	2,134.59	3.51
2008-09	45.83	115.64	69.81	152.32	2,271.90	5.09
2009-10	85.90	160.56	74.66	86.91	2,752.95	5.83
2010-11	132.26	131.01	(-) 1.25	(-) 0.95	2,373.33	5.52





As seen from column 4 and 5 of Table 1, there was mismatch between the actual receipts and budget estimates during all the years except 2010-11 highlighting the need for budget estimates to be realistic. The percentage of actual receipts when viewed against the total non-tax revenue of the State registered an increasing trend and rose from 2.31 *per cent* in 2006-07 to 5.83 *per cent* in 2009-10, but came down marginally and stood at 5.52 *per cent* in 2010-11.

The abrupt increase in receipts during 2008-09 and 2009-10 was due to disposal of timber from forest depots and increase in demand for minor forest produce.

6.3 Impact of audit

During the period 2005-06 to 2009-10, we had, through our inspection reports (IRs) pointed out non-realisation of revenue due to non-settlement of *mahals*, loss of revenue due to illegal felling and removal of timber and other irregularities having revenue implication of ₹ 77.31 crore in 601 cases. Of these, the DOEF accepted audit observations in one case involving ₹ 1 lakh and had since recovered the entire amount. Details are shown in Table 2.

Table 2
Impact of audit

(₹ in crore)

Year	No. of units audited	Amount objected		Amount accepted by DOEF/Government		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2005-06	44	145	14.10	Nil	Nil	Nil	Nil
2006-07	45	151	12.93	Nil	Nil	Nil	Nil
2007-08	36	123	25.94	Nil	Nil	Nil	Nil
2008-09	33	71	11.40	Nil	Nil	Nil	Nil
2009-10	31	111	12.94	01	0.01	01	0.01
Total	**189**	**601**	**77.31**	**01**	**0.01**	**1**	**0.01**

An analysis of the IRs issued during 2008-09 to 2010-11 indicated that 60 IRs[1] were issued against which the Department did not send even first replies to 47 IRs i.e. 78 *per cent* of cases. The response of the DOEF/Government towards the IRs and the position at column 5 – 8 of Table 2 indicate that there is a need for DOEF/Government to initiate concerted efforts and ensure that the issues raised in audit get due attention and remedial measures are taken to address them without delay.

6.4 Results of audit

Our test check of records of 38 units relating to the forest receipts during 2010-11 revealed loss of revenue, non-realisation of forest royalty and other irregularities involving ₹ 24.90 crore in 133 cases, details of which are in Table 3.

Table 3

Results of Audit

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Loss of revenue due to non-settlement/delay in settlement of *mahals*	27	9.25
2.	Non-realisation of forest royalty	18	1.51
3.	Loss of revenue due to delay in disposal of timber	15	1.09
4.	Loss of revenue due to illegal felling and removal of timber	6	0.89
5.	Other irregularities	67	12.16
Total		**133**	**24.90**

A few illustrative audit observations involving revenue implication of ₹ 2.48 crore are mentioned in the following paragraphs.

[1] The variation between the figure with those in Table 2 and paragraph 6.4 is due to the reason that the figures shown in units audited includes 'nil' IRs as well.

6.5 Audit observations

Our scrutiny of the records of the offices under DOEF revealed several cases of non-observation of the provisions of Acts/Rules/departmental orders as mentioned in the succeeding paragraphs. These cases are illustrative and are based on test checks carried out by us. Such omissions on the part of the departmental officers are pointed out by us each year. However, not only do the irregularities persist, these remain undetected till we conduct subsequent audit. We are concerned as these observations are also sent to the higher authorities including the Government each time these are detected. There is, thus, a need for the Government to improve the control and monitoring mechanism besides putting in place an effective internal audit mechanism so that these omissions can be prevented, detected and corrected.

6.6 Short realisation of revenue due to issue of permits at pre-revised/lower rates

[Divisional Forest Officers (DFO), Aie Valley, Dibrugarh, Kamrup East, Kamrup North, Kamrup West, Nagaon and Parbatjhara Divisions; between June 2010 and January 2011]

The Government of Assam, Environment and Forests Department vide their notification dated 7 March 2005 and 1 September 2009 revised the royalty rates of stone/boulder/ gravel and sand as under:

Forest produce	Royalty rate in ₹/cum as revised w.e.f.	
	7-3-2005	1-9-2009
stone/boulder/ gravel	100	130
Sand	70	90

We noticed that the above seven Divisions issued 203 permits for extraction of 2,75,760.387 cum stone/gravel/ boulder and 20,197.98 cum sand between April 2009 and December 2010. However, while issuing these permits the Divisions charged royalty at rates lower than those applicable which resulted in short realisation of royalty of ₹ 1.06 crore as shown in **Annexure-IV**. We also noticed that the proforma for permit as prescribed by the Forest Department did not seek an undertaking from the permit holder that in case of upward revision in rates of royalty, the balance amount would be recoverable from them.

After we pointed this out, DFOs, Kamrup West and Nagaon Divisions stated (between February and March 2011) that the short realisation was due to late receipt of the copy of the notification revising the rates of royalty. DFO, Nagaon further stated that the balance amount could not be billed as no undertaking was obtained from the user agencies. While we are yet to receive replies of the remaining Divisions, the reply of DFO, Nagaon indicates that scope of realisation of the entire amount was remote as the proforma of the permits issued did not include any clause for recovery of the balance amount in case of upward revision of royalty.

We recommend that the Government/Department may consider incorporating a clause in the permits seeking an undertaking from the permit holders that in case of any upward revision in rates of royalty, the balance amount would be recoverable from them. Besides, it may also be ensured that the notifications on revision of rates are circulated among the field offices without delay.

We reported the cases to the Department/Government between June 2010 and January 2011 and followed up with them between December 2010 and February 2011; we have not received their replies (August 2011).

6.7 Loss of revenue due to irregular reduction of *mahal* materials and amount payable after settlement of *mahal*

[DFO, Kamrup West Division, Bamunigaon; between December 2010 and January 2011]

Accumulation and depletion of sand/stone in the riverine *mahal*[2] due to river current is a constant process and failure to extract these within the stipulated timeframe results in washing away of these materials, thus leading to loss of revenue.

The sale notice prescribed under the Assam Sale of Forest Produce and *Mahal* Rules, 1977 provides that the tenderers should fully satisfy themselves about the availability of the *mahal* materials before quoting their bids and no complaint whatsoever is to be entertained later on. Further, the terms and conditions of the agreement form *inter alia* stipulate the periodicity of extraction, quantity of forest material, total amount to be paid and the dates of payment of instalments, security deposits etc. Failure to pay any instalment(s) on time would result in the *mahal* being sold at the risk of the *mahaldar* and loss suffered by the Government, if any, would be recovered from the *mahaldar*. There is no provision for reduction of quantity of forest produce once the operation of the *mahal* commences.

We observed that in three cases settled between June 2008 and September 2009, though the *mahaldars* were required to satisfy themselves about the availability of the materials before quoting their bids, they submitted complaints about non-availability of *mahal* materials, three to four months after commencement of the operation. The Government/ Department, however, instead of cancelling the settlements as per the provisions of the sale notice and the terms and conditions of the agreement and putting the *mahals* on re-sale at the risk of the defaulting *mahaldars*, irregularly entertained the petitions and reduced the extractable quantity (between January 2008 and June 2010) as per the plea of the *mahaldars*. This violation of provisions of the sale notice and terms and conditions of agreements resulted in loss of revenue of ₹ 91.39 lakh as mentioned in Table 4.

[2] A well defined area from where certain types of forest produces are sold.

Table 4

Reduction of *mahal* materials and loss of revenue

Name of the *mahal* Year of operation	Month of settlement Period of settlement Month in which plea on non-availability of *mahal* materials submitted	Amount at which initially settled Amount re-fixed (₹ in lakh)	Initial quantity of forest produce Quantity re-fixed (in cum)	Loss of revenue (₹ in lakh)
Chaygaon Sand mahal No.1 2009-11	July 2009 31.7.2009 to 30.7.2011 November 2009	102.00 55.83	10,000 cum 5,500 cum	46.17
Chaygaon Sand mahal No. 2 2008-10	April 2008 16.6.2008 to 15.5.2010 September 2008	56.04 24.02	35,000 15,000	32.02
Kukurmara Sand mahal 2006-08	September 2009 17.9.2009 to 16.11.2010 December 2009	35.21 22.01	50,000 31,250	13.20

We reported the case to the Department/Government in January 2011 and followed up with them in February 2011; we have not received their replies (August 2011).

6.8 Loss of revenue due to irregular application of Court verdict

[DFO, Kamrup West Division, Bamunigaon; between December 2010 and January 2011]

Accumulation and depletion of sand/stone in the riverine *mahal* due to river current is a constant process and failure to extract these within the stipulated timeframe results in washing away of these materials, thus leading to loss of revenue. Further, forest produce in the riverine *mahals* are put up for sale every alternative year for a cycle of two years.

As per clause 5 of the agreement form, if the *mahaldar* (person having the right to extract forest produce from the *mahal* area) fails to pay the relevant instalment in time, the *mahal* will be put to re-sale at the risk of the *mahaldar* and the loss suffered by the Government is to be recovered from him.

We observed that the Kukurmara sand *mahal* was settled (April 2007) with a *mahaldar* at a price of ₹ 1.19 crore[3]. An agreement was entered into between the *mahaldar* and the DFO stipulating the terms and conditions which *inter-alia* mentioned that in case of failure to pay any dues in time, the *mahal* will be put to re-sale at the *mahaldar's* risk. The *mahaldar* started operation from 20 April 2007 and paid three instalments totalling ₹ 44.44 lakh, but failed to pay the fourth instalment of ₹ 14.81 lakh due on 17 January 2008.

As per the agreement, the DFO put the *mahal* on risk-sale on 28 January 2008 for extraction of 50,000

[3] For two years for extraction of 80,000 cum of sand between 18 April 2007 and 17 April 2009.

cum sand during the working period upto 17 April 2009 against which three tenders were received, the highest being ₹ 51 lakh. However, the defaulting *mahaldar*, alongwith a partial payment of ₹ 5 lakh submitted a petition (12 February 2008) requesting for extension of time for payment of the fourth instalment and withdrawal of the risk-sale notice which was accepted by the Division. Being aggrieved, the highest bidder of the risk-sale approached the Hon'ble High Court of Gauhati for redressal. Meanwhile, the *mahaldar* paid the remaining amount of the fourth instalment on 18 and 28 February 2008, the risk-sale was withdrawn by the Division on 28 February 2008 and the *mahaldar* was allowed to continue operation.

The *mahaldar* again failed to pay the fifth instalment and requested (29 March and 17 April 2008) for extension of time and made a partial payment of ₹ 50,000 which was not accepted by the Division and the *mahal* was again put on re-sale (2 May 2008) with 40,000 cum sand to be extracted within 17 April 2009. However, the re-sale notice had to be withdrawn (3 May 2008) as per the Gauhati High Court's order to maintain status-quo in the case. Finally, the Gauhati High Court ordered (1 April 2009) to process the risk-sale as per the sale notice dated 28 January 2008 i.e. the first risk-sale.

We noticed that while the Department filed certificate case against the defaulting *mahaldar* as per the risk-clause, they also processed (July 2009) the risk-sale and settled (August 2009) the *mahal* with the second highest bidder[4] at ₹ 35.21 lakh with the working period from 17 September 2009 to 16 November 2010. Further, while filing the certificate case against the defaulting *mahaldar*, the Department deducted the aforesaid amount of ₹ 35.21 lakh from the recoverable amount. The action of the Department was irregular because the working period involved in the risk-sale initiated on 28 January 2008 expired on 17 April 2009 and hence the Department should have processed the case accordingly and proceeded to recover the entire loss sustained from the defaulting *mahaldar* as per the clause of the risk-sale. Thus, irregular retrieval of the *mahal* after putting it on risk-sale and irregular application of Court's verdict by the Department in increasing the *mahal* period up to November 2010 resulted in non-operation of the *mahal* for the subsequent *mahal* period of two years from April 2009 to March 2011 thereby causing loss of revenue of at least ₹ 44.43 lakh[5].

We reported the case to the Department/Government in January and followed up in February 2011; we have not received their replies (August 2011).

[4] As the highest bidder failed to deposit the requisite security deposit.

[5] Calculated considering the minimum value (reserve value) of the mahal i.e. the royalty rate of sand @ ₹ 70/cum for 80,000 cum sand for 19 months from April 2009 to November 2010 i.e. 80,000 cum (prescribed extractable quantity for 24 months)/24 X 19 months = 63,333 cum X ₹ 70/cum = ₹ 44.33 lakh.

6.9 Short levy of monopoly fee

[DFO, Dibrugarh Division; June 2010]

Under the Assam Forest Regulation, forest produce can be used for departmental construction only after obtaining prior permission of the Forest Department and advance payment of royalty. Upon payment of royalty in full in advance on the forest produce, a permit shall be issued by the Forest Officer allowing extraction of forest produce. In case of any unauthorised extraction without prior permission and advance payment of royalty, monopoly fee of 200 *per cent* of the royalty value is leviable.

We noticed that the University Engineer, Dibrugarh University had forwarded (January 2010) a statement showing extraction of various forest produce[6] by 15 contractors which were utilised in construction works undertaken by the University alongwith a draft of ₹ 2.65 lakh being the royalty on the said forest produce. Since Dibrugarh University did not obtain prior permission as required under the Assam Forest Regulation, the DFO, raised (March 2010) a bill of ₹ 17.38 lakh on the Dibrugarh University being royalty on the forest produce utilised and monopoly fee (penalty) at 200 *per cent* on the volume of timber only. As extraction and utilisation of the forest produce was unauthorised and without prior payment of royalty, monopoly fee at 200 *per cent* of the royalty value of all forest produce utilised by the authorities was leviable. This resulted in short levy of monopoly fee of ₹ 6.38 lakh[7].

After we pointed this out, the DFO, Dibrugarh stated (June 2010) that the matter has been taken up with the Dibrugarh University. Further developments have not been reported (August 2011).

[6] 1,392.90 cum sand; 1,457.80 cum gravel; 814.21 cum silt and 111.248 cum timber.

[7] 200 *per cent* on (1,392.9 cum sand @ ₹ 90/cum = ₹ 1.25 lakh; 1.457.8 cum gravel @ ₹ 130/cum = ₹ 1.90 lakh and 814.21 cum silt @ ₹ 5/cum = ₹ 4,071).

We reported the matter to the Department and Government in July 2010 and followed up with them in February 2011. We have not received their replies (August 2011).



GUWAHATI **(P. SESH KUMAR)**
THE **Principal Accountant General (Audit), Assam**

Countersigned



NEW DELHI **(VINOD RAI)**
THE **Comptroller and Auditor General of India**

Annexure-I

(Reference - paragraph 1.4)

Number of auditable and audited units

Sl. No.	Name of the Department	Total number of auditable units	Total number of units due for audit during 2010-11	Units planned for audit during 2010-11	Units actually audited during 2010-11
1.	Sales Tax	212	208	98	98
2.	Transport	52	46	18	19
3.	Stamp Duty & Registration	80	61	19	18
4.	State Excise	50	43	15	16
5.	Agricultural Income Tax	1	1	1	1
6.	Geology and Mining	1	1	1	0
7.	Land Revenue	147	133	13	14
8.	Forest	88	83	39	39
Total		**631**	**576**	**204**	**205**

Annexure-II

(Reference - -Paragraph 2.12.9.2)

Statement of evasion of tax by fraudulent utilisation of fake/obsolete forms

Sl. No.	Name of the dealer	Unit	TIN	Assessment year	Goods dealt in (Rate of tax)	Value of goods (₹ in lakh)	C/F form No.	Nature of irregularities	Short levy of tax and interest upto 6/11 (₹ in lakh)
1	M/s Johnson & Johnson Ltd	Unit-C	18899911053	2005-06	Cosmetics (12.5 *per cent*)	4.29	C form NL 036261	As reported by the concerned state, the form issued by M/s Sumadam Warehousing, Mokakchung, Nagaland was obsolete. Moreover, the dealer was unregistered. Hence the allowance of concessional rate of tax was irregular.	0.36 0.33
2	M/s Vaivhav Tea Company	Tinsukia	18069922810	2005-06	Tea (4 *per cent*)	0.54	F form MAH/F/01-0718690	As reported by the concerned State, the form issued by M/s Mahavir Tea Corporation, Jalgaon, Maharashtra was obsolete. Hence the allowance of exemption was irregular.	0.05 0.05
3	M/s Salkathani Tea Estate	Sibsagar	18699920087	2005-06	Tea (4 *per cent*)	17.56	F form MAH/F/01-0721371	As reported by the concerned State, the form issued by M/s Vijay Traders, Jalgaon, Maharashtra was fake. Hence the allowance of exemption was irregular.	1.76 1.64
4	M/s Salkathani Tea Estate	Sibsagar	18699920087	2005-06	Tea (4 *per cent*)	11.63	F form MAH/F/01-0867247	As reported by the concerned State, the form issued by M/s Vijay Traders, Jalgaon, Maharashtra was fake. Hence the allowance of exemption was irregular.	1.16 1.08
						34.02		**Total**	**6.43**

Annexure – III

(Reference – paragraph 5.3)

Statement showing retention of revenue in hand by the *Mouzadars*

Name of the *Mouza*	Year	Total collection	Total deposit	Cash in hand	Excess cash beyond ₹ 10,000 at the end of the year	Interest leviable @ 18 *per cent* p.a. upto March 2011
		(₹ in lakh)				
Sekhar	Upto 2007	61.37	53.54	7.83	7.73	5.56
	2007-08	3.25	1.00	2.25	9.88	1.16
	2008-09	2.58	0.75	1.83	11.71	0.62
	2009-10	0.23	0	0.23	12.04	0.04
	Total	**67.43**	**55.29**	**12.14**		
	Cash in hand at the end of March 2010				**12.04**[1]	
Dakua	Upto 2007	23.39	17.96	5.43	5.33	3.84
	2007-08	1.90	0.67	1.23	6.56	0.61
	2008-09	1.57	0.44	1.13	7.69	0.37
	2009-10	0.56	0	0.56	8.25	0.10
	Total	**27.42**	**19.07**	**8.35**		
	Cash in hand at the end of March 2010				**8.25**	
Harisinga	Upto 2007	55.07	41.87	13.20	13.10	9.43
	2007-08	4.70	2.10	2.60	15.70	1.35
	2008-09	4.01	2.10	1.91	17.61	0.67
	2009-10	1.79	0	1.79	19.40	0.32
	Total	**65.57**	**46.07**	**19.5**		
	Cash in hand at the end of March 2010				**19.40**	
Kampur	2006-07	1.07	0.81	0.26	0.16	0.12
	2007-08	1.13	0.89	0.24	0.40	0.13
	2008-09	0.78	0.30	0.48	0.88	0.17
	2009-10 (upto 12/09)	0.13	0	0.13	1.01	0.23 (for 15 months)
	Total	**3.11**	**2**	**1.11**		
	Cash in hand at the end of December 2009				**1.01**	
Kathiatoli	2006-07	1.21	0.96	0.25	0.15	0.11
	2007-08	1.20	0.66	0.54	0.69	0.29
	2008-09	0.91	0.82	0.09	0.78	0.03
	2009-10 (upto 12/09)	0.45	0.33	0.12	0.90	0.03 (for 15 months)
	Total	**3.77**	**2.77**	**1.00**		
	Cash in hand at the end of December 2009				**0.90**	

[1] Unauthorised retention of cash beyond the permissible limit of ₹ 10,000.

Garubat	2006-07	3.66	1.91	1.75	1.65	1.19
	2007-08	3.00	2.53	0.47	2.12	0.25
	2008-09	2.37	2.00	0.37	2.49	0.13
	2009-10 (upto 12/09)	0.83	0.48	0.35	2.84	0.08 (for 15 months)
	Total	**9.86**	**6.92**	**2.94**		
	Cash in hand at the end of December 2009				**2.84**	
Bhuragaon	2008-10 (upto 9/10)	21.88	7.04	14.84	14.74	1.33
	Cash in hand at the end of September 2010				**14.74**	
Bokani	Do	0.77	0.42	0.35	0.25	0.02
	Cash in hand at the end of September 2010				**0.25**	
Kaziranga	Upto 2007	21.71	15.96	5.75	5.65	4.07
	2007-08	3.50	2.63	0.87	6.52	0.47
	2008-09	3.23	2.62	0.61	7.13	0.22
	2009-10	1.42	1.83	-.41	6.72	–
	Total	**29.86**	**23.04**	**6.82**		
	Cash in hand at the end of March 2010				**6.72**	
Bokakhat	2007-08	2.54	1.95	0.59	0.49	0.26
	2008-09	2.37	1.83	0.54	1.03	0.19
	2009-10	1.56	1.19	0.37	1.40	0.06
	Total	**6.47**	**4.97**	**1.5**		
	Cash in hand at the end of March 2010				**1.40**	
Mahura	Upto 2007	4.57	3.98	0.59	0.49	0.35
	2007-08	1.93	1.05	0.88	1.37	0.48
	2008-09	1.58	1.16	0.42	1.79	0.15
	2009-10	0.93	0.73	0.20	1.99	0.04
	Total	**9.01**	**6.92**	**2.09**		
	Cash in hand at the end of March 2010				**1.99**	
Ruposi	Upto 2007	9.18	0.45	8.73	8.63	6.21
	2007-08	4.64	0.48	4.16	12.79	2.25
	2008-09	4.75	0.48	4.27	17.06	1.54
	2009-10	4.72	0.40	4.32	21.38	0.78
	2010-11 (upto 10/10)	4.50	0.16	4.34	25.72	0.33 (for 5 months)
	Total	**27.79**	**1.97**	**25.82**		
	Cash in hand at the end of October 2010				**25.72**	

Titapani	Upto 2007	2.30	1.27	1.03	0.93	0.67
	2007-08	2.49	1.19	1.30	2.23	0.70
	2008-09	2.75	1.28	1.47	3.70	0.53
	2009-10	2.61	1.18	1.43	5.13	0.26
	20010-11 (upto 10/10)	2.02	0.74	1.28	6.41	0.10
	Total	**12.17**	**5.66**	**6.51**		
	Cash in hand at the end of October 2010				**6.41**	

Total revenue collected = ₹ 285.11 lakh

Total revenue remitted = ₹ 182.14 lakh

Total revenue in hand over and above the permissible amount of ₹ 10,000 = ₹ 1.03 crore.

Interest realizable @ 18 *per cent* p.a. on the undeposited amount = ₹ 47.84 lakh.

Annexure – IV

(Reference paragraph –6.6)

Statement showing short realisation of royalty on forest produces

Name of Division No of permits Issued between	Permit issued for		Royalty realisable	Royalty realised	Short realisation of royalty
	Sand	Stone/gravel etc.,			
	(in cum)		(in lakh of ₹)		
Nagaon 23 September and October 2009	9678.73	135733.987	185.17	124.47	60.70
Kamrup East 16 September 2009 and August 2010	0	55876.00	72.63	55.87	16.76
Kamrup North 10 September to November 2009	2000	26648.37	36.44	28.04	8.40
Aie Valley 63 September 2009	0	23500	30.55	23.50	7.05
Dibrugarh 23 September 2009	0	9562	12.43	7.17	5.26
Kamrup West 59 April 2009 and December 2010	0	18897.03	22.72	18.75	3.97
Parbatjhara, Gauripur 09 September and November 2009	8519.25	5543	14.87	11.51	3.36
Total : 203 permits	**20197.98**	**275760.387**	**374.81**	**269.31**	**105.50**