Preface

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

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising taxes/VAT on sales, trade etc., state excise, motor vehicles tax, passengers and goods tax, forest receipts and 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 cases which were noticed in earlier years but could not be included in previous years' Reports.

Overview

This Report contains 37 paragraphs including three reviews relating to non/short levy of taxes, duties, royalty, fees, interest and penalty etc., involving ₹ 141.27 crore. Some of the major findings are mentioned below:

1. General

The total receipts of the Government for the year 2010-11 were ₹ 12,710.61 crore. The revenue raised by the State Government during the year was ₹ 5,337.69 crore comprising tax revenue of ₹ 3,642.38 crore and non-tax revenue of ₹ 1,695.31 crore. The State Government also received ₹ 1,715.35 crore as State's share of divisible Union taxes and ₹ 5,657.57 crore as grants-in-aid from the Government of India.

(Paragraph 1.1)

Test check of the records of sales tax, state excise, taxes on vehicles, goods and passengers, forest receipts and other tax and non-tax receipts conducted during the year 2010-11, revealed under assessments/short levy/loss of revenue aggregating ₹ 431.05 crore in 1,062 cases. During the course of the year 2010-11, the concerned departments accepted under assessments etc., of ₹ 30.43 crore in 317 cases.

(Paragraph 1.5.1)

2. Taxes/VAT on Sales, Trade etc.

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

- Concealment of interstate purchase of ₹ 7.82 crore resulted in evasion of tax of ₹ 1.77 crore.

(Paragraph 2.8.12.1)

- Irregular grant of exemption of tax on sales without submission of declaration in form 'C' resulted in non-levy of tax of ₹ 11.05 crore.

(Paragraph 2.8.12.2)

- Incorrect grant of concessional rate of tax on sales against defective/invalid 'C' forms resulted in short levy of tax of ₹ 12.14 crore including interest.

(Paragraph 2.8.13)

- Incorrect allowance of exemption of tax on invalid 'F' forms resulted in short realisation of tax of ₹ 6.24 crore.

(Paragraph 2.8.14)

- Incorrect allowance of exemption on transfer of goods to places not mentioned in registration certificate resulted in underassessment of tax of ₹ 4.73 crore.

(Paragraph 2.8.16)

- Incorrect allowance of exemption of tax on incomplete 'F' forms resulted in non-levy of tax of ₹ 27.77 crore.

(Paragraph 2.8.17)

3. State Excise

Low yield of spirit from molasses in a distillery of Una district resulted in short collection of excise duty of ₹ 25.92 lakh.

(Paragraph 3.8)

In AETC Bilaspur, the Department had to forgo revenue of ₹ 39.46 lakh on account of lesser fixation of minimum guaranteed quota for the year 2009-10.

(Paragraph 3.9)

Indecisiveness on the part of the department to seal vend and re-allot the unit, deprived the Government of annual license fee of ₹ 32.05 lakh.

(Paragraph 3.11)

4. Taxes on Vehicles, Goods and Passengers

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

- Lack of various controls such as application controls, process controls, validation controls etc. in the 'VAHAN' software resulted in incomplete database maintained by the Registering Authorities (RAs).

(Paragraphs 4.6.9.1 to 4.6.9.4)

- Necessary controls to levy penalty/fine at the prescribed rates were not built in the software leading to non/short levy of penalty/fine.

(Paragraphs 4.6.9.5, 4.6.9.7 and 4.6.9.8)

- The certificates of fitness of 18,854 transport vehicles renewable as on 31 March 2011 were not renewed and fee amounting to ₹ 47.71 lakh remained unclaimed/unrecovered.

(Paragraph 4.6.9.6)

- Due to non-maintenance of central server, giving access to all the RAs across the state there was duplication of data leading to increase in the number of records of vehicles in the database of different RAs.

(Paragraph 4.6.14)

Token tax of ₹ 2.23 crore was neither paid by 5,173 vehicle owners nor recovered by 29 registering and licensing authorities.

(Paragraph 4.9)

In 10 regional transport authorities, non-payment of special road tax by Private Stage Carriages (PSCs) and non-recovery of tax/penalty resulted in non-recovery of Government dues of ₹ 6.36 crore.

(Paragraphs 4.10 and 4.11)

Application of incorrect rate of composite fee in all the 7,050 vehicles entering into the State through barriers without National Permit resulted in short realisation of ₹ 1.76 crore during 2008-09 and 2009-10.

(Paragraph 4.12)

5. Forest Receipts

In seven forest divisions payment of royalty of ₹ 2.65 crore was made late by the Himachal Pradesh State Forest Corporation (HPSFC), on which interest of ₹ 38.64 lakh was not levied by the Department.

(Paragraph 5.8)

Non-seizure of 166 illicitly felled trees resulted in loss of revenue to the tune of ₹ 78.38 lakh.

(Paragraph 5.9)

6. Other Tax and Non-Tax Receipts

A performance audit on **"Interest Receipts including Dividends and Profits"** revealed the following:

- During 2005-06 to 2009-10 the Budget estimates and actual receipts fluctuated between (-) 27 *per cent* and 5,872 *per cent* indicating defective budgetary preparation.

(Paragraph 6.3.7)

- Terms and conditions of loans of ₹ 6.13 crore by Multi Purpose Projects and Power Department and Horticulture Departments were not prescribed. Thus, monitoring and recovery of interest was not possible.

(Paragraph 6.3.8.3)

Chapter-1
General

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Himachal Pradesh during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to the 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 below:

(₹ in crore)

Sr. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	**Revenue raised by the State Government**					
	• Tax revenue	1,656.38	1,958.18	2,242.49	2,574.52	3,642.38
	Non-tax revenue	1,336.85	1,822.43	1,756.24	1,783.66	1,695.31
	Total	**2,993.23**	**3,780.61**	**3,998.73**	**4,358.18**	**5,337.69**
2.	**Receipts from the Government of India**					
	• Share of net proceeds of divisible Union taxes and duties	629.16	793.64	837.49	861.63	1,715.35
	• Grants-in-aid	4,212.83	4,567.29	4,471.77	5,126.55	5,657.57
	Total	**4,841.99**	**5,360.93**	**5,309.26**	**5,988.18**	**7,372.92**
3.	**Total revenue receipts of the State Government (1 and 2)**	**7,835.22**	**9,141.54**	**9,307.99**	**10,346.36**	**12,710.61**[1]
4.	**Percentage of 1 to 3**	**38**	**41**	**43**	**42**	**42**

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 5,337.69 crore) was 42 *per cent* of the total revenue receipts. The balance 58 *per cent* of the receipts during 2010-11 was from the Government of India.

[1] For details, please see Statement No. 11-Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Himachal Pradesh for the year 2010-11. Figures under the Major Head 0020-Corporation tax; 0021-Taxes on income other than Corporation tax; 0032-Taxes on wealth; 0037-Customs; 0038-Union excise duties; 0044-Service tax and 0045-Other taxes and duties on commodities and services-901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

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

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Taxes/VAT on sales, trade etc.	914.45	1,092.16	1,246.31	1,487.40	2,101.10	41
2.	State excise	341.86	389.57	431.83	500.26	561.53	12
3.	Stamps and registration fees						
	Stamps - judicial	3.18	4.10	4.69	5.95	6.58	11
	Stamps -non-judicial	68.86	64.12	73.53	84.10	101.50	21
	Registration fees	20.43	18.77	20.11	23.34	24.61	5
4.	Taxes and duties on electricity	30.43	81.57	78.83	39.08	301.59	672
5.	Taxes on vehicles	106.35	113.72	135.53	133.97	163.02	22
6.	Taxes on goods and passengers	50.22	55.12	62.39	88.74	93.46	5
7.	Land revenue	1.91	1.89	20.28	14.54	4.78	(-) 67
8.	Others [2]	118.65	137.13	168.99	197.14	284.21	44
Total		**1,656.34**	**1,958.15**	**2,242.49**	**2,574.52**	**3,642.38**	**41**

The following reasons for variation were reported by the concerned Departments:

Taxes/VAT on sales, trade etc.: The increase was stated to be due to the inclusion of the goods under tax, which were earlier out of tax net, hike in tax from 12.50 *per cent* to 13.75 *per cent* at par with adjoining states and more activation of the tax administration.

State excise: The increase was stated to be due to increase in application fee, annual license fee on country liquor/Indian made foreign liquor, area wise annual bar license fee and increase in number of liquor vends.

Stamps and registration fees: The increase was due to more sales of stamps and registration of more documents.

Taxes and duties on electricity: The increase was stated to be mainly due to deposit of balance amount of electricity duty of previous years in 2010-11 by the Himachal Pradesh State Electricity Board Ltd. and increase in the rates of electricity duty.

Taxes on goods and passengers: The increase was stated to be due to more receipt on account of transportation of iron, steel and plastic goods, increase in number of vehicles and increase in the rate of goods tax on all types of yarn.

Other taxes and duties on commodities and services: The increase was stated to be due to more transportation of clinker, cement, apples and other items under Certain Goods Carried by Road (CGCR) Act, increase in income from hotels and lodging houses and toll auction revenue.

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[2] The figures relating to years 2006-07: ₹ (-) 4 lakh and 2007-08: ₹ (-) 3 lakh on account of share of net proceeds assigned to the state.

The other Departments despite being requested (August 2011) did not intimate the reasons for variation in receipts from that of the previous year (December 2011).

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

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Power	910.08	1,414.52	1,255.43	1,214.80	1,093.21	(-) 10
2.	Non-ferrous, mining and metallurgical industries	48.39	56.59	76.57	85.09	113.84	33.78
3.	Interest receipts	87.18	66.90	77.97	76.93	69.95	(-) 9
4.	Forestry and wild life	45.55	53.60	55.40	72.11	65.44	(-) 9
5.	Public works	16.50	20.38	22.59	30.81	34.66	13
6.	Other administrative services	11.13	12.64	14.07	17.28	31.00	79
7.	Police	8.45	12.31	15.05	11.57	19.10	65
8.	Medical and public health	5.38	7.68	8.19	5.81	8.40	45
9.	Co-operation	7.28	4.93	2.80	3.35	9.59	186
10.	Miscellaneous general services	73.86	47.51	5.25	1.05	2.06	96
11.	Major and medium irrigation	0.21	0.22	0.17	0.14	6.84	4,786
12.	Other Non-tax receipts[3]	122.84	125.15	222.75	264.72	241.22	(-) 8.87
Total		**1,336.85**	**1,822.43**	**1,756.24**	**1,783.66**	**1,695.31**	**(-) 5**

The following reasons for variations were reported by the concerned Departments:

Forestry and Wild Life: The decrease was stated to be due to less receipt of cost of trees coming in the project areas.

Public Works: The increase was stated to be due to receipt from more construction work of residential and non-residential buildings and more recovery of departmental charges on deposit works.

Co-operation: The increase was stated to be due to more reimbursement of grants from the National Co-operative Development Corporation, New Delhi for the execution of three Integrated Co-operative Development Projects of the State.

Major and medium irrigation: The increase was stated to be due to more

[3] Comprises mainly receipts from Himachal Pradesh Public Service Commission, Printing & Stationery, Water Supply & Sanitation, Family Welfare and Housing Departments.

receipt of share on account of Shah Naher (Canal) Project.

The other Departments despite being requested (August 2011) did not intimate the reasons for variation in receipts from that of the previous year.

1.2 Response of the Department/Government towards audit

1.2.1 Failure of the officials to enforce accountability

The Principal Accountant General (Audit), Himachal Pradesh (PAG) 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 the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection reports issued upto December 2010 disclosed that 8,608 paragraphs involving ₹ 586.21 crore relating to 3,572 IRs remained outstanding at the end of June 2011 as mentioned below alongwith the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of IRs pending for settlement	3,375	3,432	3,572
Number of outstanding audit observations	7,975	8,056	8,608
Amount of revenue involved (₹ in crore)	470.48	494.43	586.21

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

(₹ in crore)

Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes/VAT on Sales, Trade etc.	120	722	130.58
		Passenger & Goods Tax (PGT)	207	513	7.67
		Other Taxes & Duties on commodities and services (OTD)	315	402	13.54
		Entertainment tax, luxury tax etc.	121	257	1.01
2.	Excise	State excise	60	192	34.76
3.	Revenue	Land revenue	246	439	0.86
4.	Transport (MVT)	Taxes on motor vehicles	678	2,150	50.57
5.	Stamp and registration	Stamp and registration fees	584	1,018	35.07
6.	Mines and geology	Non-ferrous mining and metallurgical industries	50	128	20.44
7.	Forest and environment	Forestry and wild life	599	1,622	253.27
8.	Water resources (IPH)	Water rates	132	319	22.10
9.	B&R (PWD)	Public Works Department	234	410	8.33
10.	Crop husbandry	Horticulture and Agriculture	170	302	1.27
11.	Co-operation	Audit fees and other receipts	56	134	6.74
		Total	**3,572**	**8,608**	**586.21**

We have not received even the first replies to be received from the heads of offices within one month from the date of issue of the IRs for 116 IRs issued upto December 2010. This large pendency of the 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 in the IRs.

The Government should take suitable steps to install an effective procedure for prompt and appropriate response to audit observations. Action should also be taken against the officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules and do not take action to recover loss/outstanding demand in a time bound manner.

1.2.2 Departmental audit committees meetings

The Government set up audit committees (June 2010–February 2011) to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

(₹ in lakh)

Sr. No.	Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
1.	Taxes/VAT on sales, trade etc.	Nil	Nil	Nil
2.	Stamp duty and registration fees	1	15	1.24
3.	State excise	Nil	Nil	Nil
4.	Taxes on vehicles	1	13	36.00
5.	Land revenue	1	9	3.90
6.	Forest	1	53	268.00
	Total	**4**	**90**	**309.14**

The progress of settlement of paragraphs pertaining to the Excise and Taxation Department, Transport Department and Revenue Department was negligible as compared to the huge pendency of the IRs and paragraphs, despite holding Departmental audit committee meetings.

1.2.3 Response of the State Government to draft audit paragraphs

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

Thirty seven draft paragraphs including three performance audits proposed to be included in the Report for the year ended 31 March 2011 were sent to the Principal Secretaries/Secretaries of the respective Departments by name between February and June 2011. The Principal Secretaries/Secretaries of the Departments did not send replies to 17 draft paragraphs including reviews despite issue of reminders (August 2011). These paragraphs have been included in this report without the response of the Departments.

1.2.4 Follow up on Audit Reports-summarised position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. Inspite of these provisions, the explanatory notes on audit paragraphs of the Report(s) were being delayed inordinately. Out of 147 paragraphs (including reviews) included in the Reports of the Comptroller and Auditor General of India on the revenue receipts of the Government of Himachal Pradesh for the years ended 31 March 2006, 2007, 2008 and 2009 which were placed before the Legislature Assembly between 3 April 2007 and 13 April 2010, the action taken explanatory notes from the concerned Departments were received late with average delay of 20, 13, nine and six months in respect of each of these Audit Reports respectively.

1.2.5 Compliance with the earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2005-06 to 2009-10, the Departments/Government accepted audit observations involving ₹ 1,035.44 crore of which ₹ 74.73 crore had been recovered till 31 March 2011 as mentioned in the following table:

(₹ in crore)

Year of Audit Report	Total money Value	Accepted money Value	Recovery made
2005-06	58.32	12.32	0.28
2006-07	82.38	61.28	30.71
2007-08	105.05	5.96	1.01
2008-09	182.02	126.33	38.92
2009-10	1,420.98	829.55	3.81
Total	**1,848.75**	**1035.44**	**74.73**

The above table indicates that the amount recovered was only 7.22 *per cent* of the accepted amount while the Government/Departments have accepted 56 *per cent* of the cases included in the Audit Reports.

The Government may consider introducing a mechanism for ensuring prompt recovery of the amounts involved, at least in the accepted cases.

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

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last 10 years in respect of one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Revenue Department (Stamps and Registration Fees)** in dealing with the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2000-01 to 2009-10.

1.3.1 Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2011 are tabulated below:

(₹ in crore)

Sr. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			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
1.	2000-01	316	676	3.78	97	275	1.28	53	214	0.12	360	737	4.94
2.	2001-02	360	737	4.94	97	273	1.38	40	149	0.13	417	861	6.19
3.	2002-03	417	861	6.19	107	267	1.98	66	228	2.17	458	900	6.00
4.	2003-04	458	900	6.00	91	222	1.27	67	182	0.09	482	940	7.18
5.	2004-05	482	940	7.18	82	211	0.11	59	193	0.77	505	958	6.52
6.	2005-06	505	958	6.52	124	268	0.50	70	191	1.28	559	1035	5.74
7.	2006-07	559	1035	5.74	80	246	4.39	53	162	0.06	586	1119	10.07
8.	2007-08	586	1119	10.07	73	205	6.00	52	143	0.64	607	1181	15.43
9.	2008-09	607	1181	15.43	82	194	2.63	92	374	4.77	597	1001	13.29
10.	2009-10	597	1001	13.29	81	207	1.59	62	167	1.95	616	1041	12.93

Ad hoc Committee meetings are arranged by the Government between the Department and PAG's office. Spot settlement parties are also formed by the PAG periodically to watch compliance made by the Departments and settle old paragraphs. As would be evident from the above table, against 316 IRs with 676 outstanding paragraphs as on 2000-01, the number of outstanding IRs rose to 616 with 1,041 paragraphs at the end of 2009-10. This is indicative of the fact that adequate steps were not taken by the Department in this regard resulting in piling up of the outstanding IRs and paragraphs.

1.3.2 Assurances given by the Departments/Government on the issues highlighted in the Audit Report

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned below:

(₹ in lakh)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31.03-2011
2000-01	5	425.04	5/422.16	425.04	305.58	331.10
2001-02	--	--	--	--	--	--
2002-03	3	57.22	3/39.80	57.22	1.88	8.33
2003-04	3	9.79	2/5.90	6.75	--	--
2004-05	2	475.63	2/453.11	475.63	33.59	102.43
2005-06	4	73.87	4/65.57	73.87	2.22	3.05
2006-07	3	286.53	3/274.25	286.53	1.86	11.18
2007-08	6	500.76	5/493.29	493.29	1.73	18.43
2008-09	2	186.88	2/186.88	186.88	1.34	22.46
2009-10	2	151.36	2/151.36	151.36	0.15	0.15

It is evident from the above table that the progress of recovery of accepted cases was very slow throughout the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been devised and position of arrears including accepted audit recoveries was not available with the Inspector General of Registration. In the absence of a suitable mechanism, the Department could

not monitor the recovery of accepted cases. The position has been elaborated in Chapter-VI of this Audit Report.

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

1.4 Audit planning

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

During the year 2010-11, the audit universe comprised of 510 auditable units, of which 281 units were planned and audited during the year 2010-11, which is 55 *per cent* of the total units. The details are available in the **Annexure-I**.

Besides, the compliance audit mentioned above, three performance reviews were also taken up to examine the efficacy of the tax administration of these receipts.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

Test check of the records of 281 units of sales tax/value added tax, state excise, motor vehicles, goods and passengers, forest receipts and other Departmental offices conducted during the year 2010-11 revealed under assessment/short levy/loss of revenue aggregating ₹ 431.05 crore in 1,062 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 30.43 crore involved in 317 cases which were pointed out in audit during 2010-11. The Departments collected ₹ 0.67 crore in 82 cases during 2010-11.

1.5.2 This Report

This report contains 37 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) including three performance audits titled "***Utilisation of declaration forms in Inter State Trade***"," ***Computerisation in the Transport Department*** and "***Interest Receipts including Dividends and Profits***" relating to short/non-levy of tax, duty and interest penalty etc., involving financial effect of ₹ 141.27 crore. The Departments/Government have accepted audit observations involving ₹ 23.52 crore out of which ₹ 76.07 lakh had been recovered. The replies in the remaining cases have not been received (December 2011). These are discussed in succeeding Chapters II to VI.

Chapter-II
Taxes/VAT on Sales, Trade etc.

2.1 Tax administration

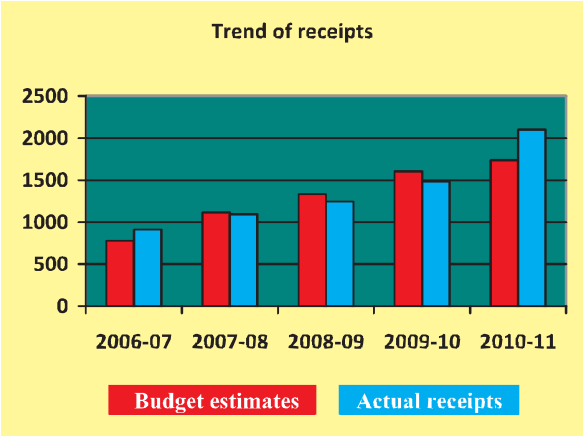
Sales Tax/Value Added Tax laws and rules framed thereunder are administered at the Government level by the Principal Secretary (Excise and Taxation). The Excise and Taxation Commissioner (ETC) is the head of the Excise and Taxation Department who is assisted by one Additional ETC, one Joint ETC, eight Deputy ETC, 14 Assistant Excise and Taxation Commissioners (AETCs) and 69 Excise and Taxation Officers (ETOs). They are assisted by Excise and Taxation Inspectors and other allied staff for administering the relevant tax laws and rules.

2.2 Trend of receipts

Actual receipts from Sales tax/VAT during the last five years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual Sales tax/VAT receipts vis-à-vis total tax receipts
2006-07	780.00	914.45	134.45	17	1,656.38	55
2007-08	1,115.00	1,092.16	(-) 22.84	(-) 2	1,958.18	56
2008-09	1,336.81	1,246.31	(-) 90.50	(-) 7	2,242.49	56
2009-10	1,604.17	1,487.40	(-) 116.77	(-) 7	2,574.52	58
2010-11	1,741.18	2,101.10	359.92	21	3,642.38	58



It would be seen from the above that the variation between the budget estimates and the actual receipts was 17 *per cent* during 2006-07, which came down to the level of (-) two to (-) seven *per cent* during the period 2007-08 to 2009-10 and subsequently rose to 21 *per cent* during 2010-11.

2.3 Arrears in assessment

The number of cases pending assessment at the beginning of the years, becoming due during the year, disposed during the year and pending at the end of each year during the period 2006-07 to 2010-11 as furnished by the Excise and Taxation Department in respect of the taxes/VAT on sales, trade etc., are as mentioned below:

Year	Opening balance	Cases which become due for assessment during the year	Total assessments due	Cases disposed during the year	Cases remaining at the end of the year	Percentage of disposal (col. 5 to 4)
1.	2.	3.	4.	5.	6.	7.
2006-07	1,01,179	32,832	1,34,011	61,251	72,760	46
2007-08	72,760	36,675	1,09,435	45,361	64,074	41
2008-09	64,074	38,760	1,02,834	32,592	70,242	30
VAT	38,319	49,452	87,771	24,581	63,190	
2009-10	70,242	26,736	96,978	39,710	57,268	71
VAT	63,190	76,911	1,40,101	1,28,310	11,791	
2010-11	57,268	25,092	82,360	35,579	46,781	26
VAT	11,791	1,58,703	1,70,494	31,043	1,39,451	

We noticed that the percentage of disposal which ranged between 30 and 71 *per cent* during the period 2006-07 to 2009-10 has decreased to the level of 26 *per cent* in 2010-11.

The Government needs to continuously monitor the work of the assessing authorities to bring down the percentage of pending assessments in the interest of revenue.

2.3.1 Action plan of the department to liquidate the pending assessments

In order to reduce the pendency of assessments especially under the Himachal Pradesh VAT Act, 2005, the Department has proposed the following action plan:-

(i) All pending cases under Himachal Pradesh General Sales Tax Act, 1968 would be cleared by 31.12.2011.

(ii) The pendency of assessment up to the year 2007-2008 would be cleared by 31.3.2012.

These directions have already been issued to all AETCs of the districts and ETO, Kinnaur.

2.3.2 Position of arrears

(₹ in lakh)

Year	Opening balance of arrears	Additions during the year	Collection by the end of the year	Balance Arrears
2006-07	10,021.34	2,060.37	2,151.85	9,939.86
2007-08	9,939.86	3,954.90	2,555.83	11,328.93
2008-09	11,328.93	3,287.14	2,577.59	12,038.48
2009-10	12,038.48	17,243.76	20,130.71	9,151.53
2010-11	9,151.53	18,197.28	11,076.47	16,272.35

The above table shows that the arrears of revenue in respect of taxes/VAT on sales, trade etc. sharply increased in 2010-11.

The Government may consider taking suitable steps for collection of arrears in a time bound manner.

2.4 Cost of collection

The gross collection of taxes/VAT on sales, trade etc. revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection of the preceding years were as follows:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
Taxes/ VAT on sales, trade etc.	2006-07	914.45	10.33	1.13	0.91
	2007-08	1,092.16	11.35	1.04	0.82
	2008-09	1,246.31	12.88	1.03	0.83
	2009-10	1,487.40	15.06	1.01	0.88
	2010-11	2,101.10	21.85	1.04	0.96

Source: Finance Accounts

The above table indicates that the percentage of expenditure on collection was more than the all India average percentage for all the years during 2006-07 to 2010-11.

The Government needs to take appropriate measures to bring down the cost of collection.

2.5 Internal Audit

The Excise and Taxation Department introduced internal audit system for checking the records relating to sales tax. For this purpose, the Commissioner issued instructions in February 1987, which provided annual audit of all units within 20 days from the completion of the financial year and furnishing of first annotated replies by concerned units within two months from issuance of audit findings.

The Internal Audit Wing (IAW) attached to the office of the Commissioner consists of only two Section Officers. Neither was internal audit of any unit conducted nor pending IRs and paras cleared by the Wing during the last three years as mentioned below:

Sl. No.	Year	No. of units required to be audited	No. of units audited by IAW	No. of units pending for audit by IAW	No. of IRs and paras pending at the beginning of the year		No. of IRs settled during the year		No. of IRs and paras outstanding at the end of year	
					IR	Para	IR	Para	IR	Para
1	2007-08	11	0	11	94	731	-	-	94	731
2	2008-09	11	0	11	94	731	-	-	94	731
3	2009-10	11	0	11	94	731	-	-	94	731

Source: Excise and Taxation Commissioner

The above figures shows that the internal audit system prevailing in the Department was not providing reasonable assurance on the adequacy of safeguards against evasion of tax.

The Department attributed (December 2010) short fall in conducting internal audit to shortage of staff. The fact remains that the Department had not taken any steps to strength the internal audit wing to ensure strict compliance with the provision of the Act and the Rules by various wings and to prevent leakage of revenue.

2.6 Impact of audit

During the last five years (including the current year's report), we have pointed out 45 paragraphs of non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealments/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 138.02 crore. Of these, the Department/Government had accepted/partially accepted audit observations in 24 paragraphs involving ₹ 4.24 crore and had since recovered ₹ 89.18 lakh in 16 paragraphs. The details are shown in the following table:

(₹ in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	7	278.00	7	76.16	3	16.61
2007-08	14	6,824.00	6	159.17	5	40.02
2008-09	10	3,152.00	5	104.20	4	21.78
2009-10	08	3,406.00	4	75.84	2	7.29
2010-11	06	142.42	2	8.19	2	3.48
Total	**45**	**13,802.42**	**24**	**423.56**	**16**	**89.18**

This is indicative of the fact that the Department had not been able to enforce prompt recovery even in accepted cases.

The Government may consider introducing a mechanism for ensuring recovery against accepted cases in a time bound manner.

2.7 Results of audit

In 2010-11, test check of the records of 10 units relating to VAT/sales tax assessments and other records revealed underassessment of tax and other irregularities involving ₹ 87.34 crore in 202 cases, which fall under the following categories:

(₹ in crore)

Sr. No.	Categories	Number of cases	Amount
1.	**Utilisation of declaration forms in Inter State Trade (A Performance Review)**	01	65.81
2.	Underassessment of tax	55	16.88
3.	Irregular/incorrect/excess allowance of ITC	98	2.20
4.	Evasion of tax due to suppression of sales/purchases	07	0.17
5.	Other irregularities	41	2.28
Total		**202**	**87.34**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 1.95 crore in 51 cases which were pointed out in audit

during the earlier years. An amount of ₹ 1.56 lakh was realised in one case during the year 2010-11.

A review of **"Utilisation of declaration forms in Inter-State Trade"** with financial impact of ₹ 65.81 crore and few illustrative cases involving ₹ 3.19 crore are mentioned in the following paragraphs:

2.8 Performance Review on "Utilisation of declaration forms in Inter-State Trade"

The Central Sales Tax (CST) Act, 1956 and the rules framed thereunder provide for concessional rate of tax in respect of inter-state sales of goods and exemption from tax in respect of branch transfers and export sales. These concessions/exemptions are subject to furnishing of declarations in the prescribed forms viz 'C', 'F' and 'E-I/II' etc. Failure to furnish the declarations or submission of defective or incomplete declaration forms will make the transactions liable to tax as applicable to sale in the appropriate State.

We conducted cross verification of declaration forms used in inter-state trade to check the genuineness of these declarations. The information collected was verified with the Commercial/Sales Tax Departments of other States and we found various irregularities as mentioned below.

Highlights

- Concealment of interstate purchase of ₹ 7.82 crore resulted in evasion of tax of ₹ 1.77 crore.

(Paragraph 2.8.12.1)

- Irregular grant of exemption of tax on sales without submission of declaration in form 'C' resulted in non-levy of tax of ₹ 11.05 crore.

(Paragraph 2.8.12.2)

- Incorrect grant of concessional rate of tax on sales against defective/invalid 'C' forms resulted in short levy of tax ₹ 12.14 crore including interest.

(Paragraph 2.8.13)

- Incorrect allowance of exemption of tax on invalid 'F' forms resulted in short realisation of tax of ₹ 6.24 crore.

(Paragraph 2.8.14)

- Incorrect allowance of exemption on transfer of goods to places not mentioned in registration certificate resulted in underassessment of tax of ₹ 4.73 crore.

(Paragraph 2.8.16)

- Incorrect allowance of exemption of tax on incomplete 'F' forms resulted in non-levy of tax of ₹ 27.77 crore.

(Paragraph 2.8.17)

2.8.1 Introduction

Central Sales Tax (CST) is an indirect tax levied by the Central Government for interstate sales and is collected by the State Government from where the movement of the goods commenced. Under the Central Sales Tax Act (CST Act), 1956 registered dealers are eligible to certain concessions and exemptions of tax on inter State transactions on submission of prescribed declarations in Forms 'C' and 'F'.

Under the provisions of CST Act, every dealer, who in the course of inter State trade or commerce, sells to a registered dealer, goods of the 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* with effect from 1st April 2007 and two *per cent* 1st June 2008) of his turnover provided such sales are supported by declarations in form 'C'.

Under Section 6A of CST (Amendment) Act 1972, transfer of goods not by way 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 his business outside the State or his agent or principal as the case may be, along with evidence of dispatch of such goods. Filing of declarations in form 'F' was made mandatory with effect from May 2002. Failure to furnish the declarations or submission of defective or incomplete declaration form will make the transaction liable to tax applicable to sale of goods in the appropriate State.

2.8.2 Form 'C'

Under the provisions of the CST Act, every dealer, who in the course of inter State trade or commerce, sells to a registered dealer, goods of the 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 (two *per cent* w.e.f. 01.06.2008) of such turnover provided such sales are supported by declarations in form 'C'.

2.8.3 Form 'F'

Under section 6A of CST (Amendment) Act, 1972, transfer of goods not by reason of sales by a registered dealer to any other place of his 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 evidence of dispatch of such goods. Filing of declarations in form 'F' was not mandatory upto May 2002. However, the Act, provided for the assessing authority to make such enquiries as he deemed necessary to satisfy himself on bonafides of the transfer such as sale patties, dispatch particulars, way bill etc.

2.8.4 Organisational set up

The Principal Secretary (Excise and Taxation) is the administrative head at the Government level. The Excise and Taxation Commissioner (ETC) is the head of the Excise and Taxation Department who is empowered with the task of superintendence and administration of various fiscal measures in addition to quasi-judicial function as appellate and revisional authority under various Excise and Taxation laws. He is assisted by three additional ETCs, one Joint ETC, six deputy ETCs, 14 Assistant Excise and Taxation Commissioners (AETCs) and 69 Excise and Taxation Officers (ETOs). They are assisted by Excise and Taxation Inspectors and other allied staff for administering the relevant tax laws and rules.

2.8.5 Audit Objectives

We conducted the review with a view to ascertain whether:

- there exists a foolproof system for custody and issue of the declaration forms;
- exemption/concession of tax granted by the assessing authorities was supported by the original declaration forms;
- there is a system for ascertaining genuineness of the forms for preventing evasion of tax;
- there is a system of uploading the particulars of forms in the TINXSYS website and the data available therein is utilised for verifying the correctness of the forms;
- appropriate steps were taken on receipt and detection of fake, invalid and defective forms; and
- there exists an effective and adequate internal control mechanism.

2.8.6 Scope and methodology

The scope of the review was limited to 'C' and 'F' forms. We conducted the review in five[4] out of 11 AETC offices during November 2010 to January 2011, covering assessments completed during the period from 2007-08 to 2009-10, where exemptions/concessions were granted under the CST Act.

The review was conducted in three phases. In the first phase, we collected information from the assessment records, the details of 429 'C' forms and 155 'F' forms issued by the assessing authorities (AAs) of 25 States/UTs against which the dealers of the State had availed concession/exemption of tax on submission of the same before the AAs concerned. In the second phase, these details were sent to the concerned States for cross verification with reference to the records maintained by the AAs of these 25 States/UTs, who had issued such forms, in order to ascertain the genuineness of those forms as well as the correctness of the value of goods. Similarly, we also received the details of 1,211 'C' forms and 203 'F' forms from 21 States and in the third phase of the review, we cross verified the same with reference to the records of the Deputy CCTs/Assistant CCTs of 11 circles of the State. Besides, the review also covered the audit observations made on assessments under the Act completed during the period from April to October 2010 in six other Ranges and seven circles.

2.8.7 Acknowledgement

We acknowledge the co-operation of the Excise and Taxation Department in providing necessary information and records for audit. An entry conference was held in February 2011 with the Principal Secretary (Excise and Taxation)-Government of Himachal Pradesh wherein audit objectives, scope of audit and audit criteria were discussed. The draft review was forwarded to the Department and the Government in September 2011. The exit conference was

4 Baddi, Barotiwala and Nalagarh (BBN), Bilaspur, Hamirpur, Mandi and Sirmour

held on 28 October 2011 with the Principal Secretary (Excise and Taxation). The replies and Departmental views have been appropriately incorporated in the relevant paragraphs.

2.8.8 Trend of revenue

The percentage of receipts of CST to the total revenue receipts under the head "0040-Taxes/VAT on sales, trade etc." for the years 2006-07 to 2010-11 are given below:

(₹ in crore)

Years	Receipts from		Total receipts under Taxes/VAT on Sales, trade etc.	Percentage of CST to total receipts from taxes/VAT on sales, trade etc.
	VAT/ Sales Tax	CST		
(1)	(2)	(3)	(4)	(5)
2006-07	821.16	93.29	914.45	10
2007-08	978.98	113.18	1,092.16	10
2008-09	1,106.99	139.32	1,246.31	11
2009-10	1,288.11	199.29	1.487.40	13
2010-11	1,805.30	295.80	2,101.10	16

Source: Finance Accounts for the years 2006-07 to 2010-11

Thus receipts under CST showed an increasing trend in all the years and its share increased by 2.22 *per cent* and 0.69 *per cent* to total revenue during the years 2009-10 and 2010-11 respectively.

System deficiencies

2.8.9 Printing and custody of declaration forms

Rule 15.1 and 15.2 of the Himachal Pradesh Financial Rules (HPFR), 1971 (Volume-1) provides that all purchases of stores for use in public service should be regulated in strict conformity with the stores rules and must be made in the most economical manner and in accordance with the definite requirements of public service. Further, the Departmental officers entrusted with the care, use or consumption of stores are responsible for maintaining correct records and preparing correct returns in respect of the stores entrusted to them. Rules 15.8, 15.9, 15.13 and 15.17 of HPFR 1971, provide that the Head of an office or any officer entrusted with stores should take special care for arranging for their safe custody, for protecting them from loss, damage or deterioration. For securing this object, it is important that all quantities received in or issued from stores entered in the stock account strictly as per the rules and in the order of occurrence on dates the transactions take place. A reliable list, inventory or account of all stores in the custody of Government servant should be maintained in a form prescribed by the Head of the Department (HoD). A physical verification of all stores should be made at least once in every year under the rules prescribed by the HoD.

As per procedure, the declaration forms are got printed by the Commissionerate from the State Government press and supplied to the divisions for distribution amongst the circle offices under their jurisdiction for further distribution to registered dealers. The receipt and issue of declaration forms are required to be accounted for in separate registers and day to day balance is worked out to check the existing stock after issuing forms to the district offices.

The details of 'C' forms printed, issued and lying in store at the end of the years 2007-08 to 2010-11 are given below:

Sl. No.	Year	Opening balance of 'C' forms in stock as on 1st April	Number of 'C' forms	Total	Total number of 'C' forms issued to district offices	Balance at the close of the year
1	2007-08	18,000	5,00,000	5,18,000	2,74,000	2,44,000
2	2008-09	2,44,000	5,00,000	7,44,000	3,49,000	3,95,000
3	2009-10	3,95,000	5,00,000	8,95,000	3,58,000	5,37,000
4	2010-11	5,37,000	Nil	5,37,000	4,69,000	68,000

Source: Information furnished by Commissionerate office

The Department got five lakh 'C' forms printed each year during the period 2007-08 to 2009-10 resulting in huge balances of declaration forms lying unused at the close of the year.

As regards 'F' forms, the Commissionerate office intimated (January 2011) that out of 50,000 forms, 12,000 forms were issued during the period of review leaving a balance of 38,000 forms at the end of the year 2009-10.

The Department may assess the requirement of declaration forms on a realistic basis to avoid accumulation of stock of unused forms.

2.8.10 Maintenance of accounts of receipts and use of declaration forms

The receipt and issue of declaration forms are required to be accounted for in separate registers and day to day balance is worked out to check the existing stock after issuing forms to the district offices.

2.8.10.1 Improper maintenance of stock and issue register

Our scrutiny of records maintained at the Commissionerate revealed that the stock and issue register of the declaration forms 'C' and 'F' was not maintained properly. We noticed that the declaration forms received from the Printing and Stationery Department were not accounted for in the Stock and Issue register and balances at the end of day were not worked out. The declaration forms were not issued in chronological order and the register was never submitted to the higher authorities, in the absence of which safe custody and proper accounting of declaration forms could not be ensured. We also noticed that during the period 2007-2010, the Department did not conduct physical verification of the 'C' and 'F' forms. Thus vital internal control checks for minimising the risk of misuse of cash value documents like forms 'C' and 'F' were not being exercised.

After we pointed this out, the Department stated (December 2011) that instructions had been issued to the concerned officials by the ETC for safe custody and proper accountal of declaration forms.

2.8.10.2 Receipt and issue by divisions/circles

The receipt and issue of the aforesaid declaration forms are accounted for in separate stock registers by the division and circle offices indicating receipt and issue of 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. Declaration forms are issued to registered dealers by circle offices to enable them to issue it to another registered dealers for purposes specified in their registration certificate in order to avail exemption from levy of tax or to pay tax at concessional rate.

Our scrutiny of the stock and issue registers of two test checked districts[5] revealed the following discrepancies:

Sl. No.	Date of issue of 'C' forms	Name of the dealer to whom issued	Serial No. of 'C' forms	No. of forms	Deficiencies found
1	10.05.2007	M/s Tirlok & Sons Brewery and Distillery, Kala Amb	1091601 to 1091630	30	Five 'C' forms bearing No. 1091601 to 1091605 were again issued to M/s Saitech Pharmaceuticals, Kala Amb on 11 May 2007.
2	27.8.2007	Excise and Taxation Officer, Paonta Sahib	1001351 to 1001650	300	Of these 182 'C' forms were again issued to different firms[6] in August 2007.

5 Mandi and Sirmour

6 30 'C' forms to M/s SF Operation Circle, HPSEB, Nahan bearing No. 1001351 to 1001380; Two 'C' forms to M/s Daleep Singh, Contractor bearing No. 1001381 and 1001382; 50 'C' forms to M/s Suruchi Industry, Dhakan Wali bearing No. 1001383 to 1001432 and 50 'C' forms to M/s Sidwal Refrigency, Kala Amb bearing No. 1001433 to 1001482

After we pointed this out, the Department stated (December 2011) that out of 689 'C' forms, 688 forms were issued by the AETC and one form was cancelled. However, instructions had been issued to field offices for safe custody and proper accountal of declaration forms.

2.8.10.3 We noticed (January 2011) in AETC Mandi that out of 689 'C' forms which were initially not found traceable in the issue register, 688 forms were reported to have been issued to the dealers between 1 February and 8 February 2011 despite the fact that these forms were destroyed by termites and were not fit to be issued to dealers. However, of these, one form 'C' bearing Sr. No. 08872275 was neither found issued to any dealer nor traceable in the records.

This clearly indicates that the office did not have proper arrangements in place to keep the forms in safe custody. Rule 6 (10) of CST (HP) Rules 1970 provides that the Commissioner may declare the declarations form 'C' and 'F' of a particular series, design and colour as obsolete and invalid with effect from such date as may be specified in the notification. Contrary to these provisions, the Department, instead of getting these forms cancelled from the higher authorities, issued these forms to the dealers.

After we pointed this out, the Department stated (December 2011) that in case of Shimla; out of 10 utilisation certificates of form 'C', 5 had been submitted by 2 dealers. Out of 18 utilisation certificates of form 'F', 7 had been submitted by one dealer. Efforts were being made to collect the remaining utilisation certificates by all the AETC's.

2.8.10.4 Acceptance of incomplete utilisation certificates

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

We noticed (January 2011) from the records of AETC Mandi that the AA accepted utilisation certificates of 55 'C' forms from five dealers involving inter state purchase of ₹ 1.27 crore in which description of goods purchased were not mentioned and issued fresh declaration forms in violation of the provision of the Rules.

2.8.10.5 Samples of current and obsolete declaration forms of other States not kept by the Department

We observed that the Department did not keep a sample of the colour, design and format of the forms prevailing in different States for comparison in order to identify fake or forged declaration forms. As such there was a risk of non/short levy of tax due to acceptance of invalid, obsolete and forged forms.

After we pointed this out, the Department stated (December 2011) that the suggestion of audit would be kept in view. It was also informed that the majority of states are now moving towards issue of declaration forms online.

The Department may consider uploading samples of valid declaration forms from other States on the departmental website for reference in case of doubt.

2.8.10.6 Database of concession and exemptions

Under the CST Act, registered dealers are eligible to certain concessions and exemptions of tax on interstate transactions on submission of prescribed declaration in form 'C' and 'F'. The State Government grants these incentives to dealers subject to certain terms and conditions and revenue is foregone in the process. A database of revenue foregone in concessions and exemptions is essential so that the Department is vigilant about the charge offices as well as the commodities where the dealers prefer claims of concessions and exemptions in large numbers.

We noticed that the ETC office had not maintained a database of the exemptions and concessions allowed to the dealers by obtaining information from the subordinate district offices. In absence of such database, the Department could not quantify the amount of revenue foregone due to concessions and exemptions allowed from time to time nor was it possible for the Department or the audit to carry out a systematic study of the concessions and exemptions.

After we pointed this out, the Department stated (December 2011) that the department was making efforts to upload the necessary data in the system which may take some time.

The Government may consider putting in place a system for maintaining a database of the concessions and exemptions of CST and the revenue foregone on this account.

2.8.10.7 Tax Information Exchange System

Tax Information Exchange System (TINXSYS) is a centralised exchange of all interstate dealers spread across the various States and Union territories of India. TINXSYS is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of interstate transactions taking place among various States and Union Territories. The website was designed to help the Commercial Tax Departments of various States and Union Territories to effectively monitor the interstate trade. TINXSYS can be used by any dealer to verify the counter party interstate dealer in any other State. Apart from dealer verification, Commercial Tax Department officials use TINXSYS for verification of central statutory forms issued by other state Commercial Tax Departments and submitted to them by the dealers in support of their claim for concessions. TINXSYS also provides MIS and Business Intelligence Reports to the Commercial Tax Department to monitor interstate trade movements and enables the EC to monitor the trends in interstate trade.

Information gathered from the five test checked districts[7] revealed that four AAs out of five units were not using the TINXSYS for cross verification of inter state trade or commerce while finalising assessments of the dealers. We noticed that there exists a system of uploading the details of utilisation of declaration forms in the TINXSYS website but the same were not being uploaded. Status of use of TINXSYS in the above test checked districts is given below:

Sl. No.	Name of the District	Reply of the Department regarding uploading/cross verification of the data of declaration forms through TINXSYS
1.	AETC Baddi	Uploading and verification of 'C' and 'F' forms had not been done.
2.	AETC Bilaspur	Data was uploaded in excel sheet provided by the Headquarters instead of TINXSYS.
3.	AETC Mandi	Efforts were stated to have been made to upload the data on TINXSYS but due to shortage of staff and computer hardware it has been reported that much progress had not been made in this behalf.
4.	AETC Sirmour	'C' and 'F' forms had been uploaded upto 31.03.2010 but verification was done at random only.
5.	AETC Hamirpur	This practice is shortly to be under taken after installation of online system.

The TINXSYS data availability for the year 2011 for Himachal Pradesh showed that the dealers' data was last uploaded on 30.6.2009. 5,47,523 'C' forms were shown as issued up to 4.7.2009, but utilisation details of only 8,653 forms were shown upto 29.06.2009. As regards 'F' forms, 14,413 forms were shown issued upto 19.2.2009 but the data of utilisation of these forms had not been given by the State till November 2011. Thus, data has not been uploaded after July 2009 thereby depriving other States of facility of checking up the veracity of forms issued by Himachal Pradesh.

Further, during cross verification of data of 'C' and 'F' forms, we noticed that out of 1,211 'C' and 203 'F' forms received from 25 states including Union

7 BBN, Bilaspur, Mandi, Hamirpur and Sirmour

Territories, the details of 1,071 'C' and 156 'F' forms were not available in TINXSYS.

After we pointed this out, the Department stated (December 2011) that due to very minimal computerisation in department, the TINXSYS could not be utilised by the department in effective manner. The department was uploading the data in the TINXSYS manually and it was very difficult for the department to upload the data manually in the absence of staff and hardware. e-issuing of statutory forms would be started soon and uploading to TINXSYS will be automatic.

2.8.10.8 Cross verification of 'C' & 'F' forms

We noticed that the Department had not prescribed any system of selecting transactions for cross verification of declaration forms submitted by the dealers for claiming exemptions/concessions and has also not prescribed a check list of points to be seen prior to acceptance and ascertaining the genuineness of declaration forms.

During the course of review, information was called for from six AETCs[8] regarding cross verification of 'C' and 'F' forms from the issuing states. Out of six, three AETCs furnished nil information. This shows that claims of interstate transactions were admitted on the basis of declarations furnished by the dealers and no further verification of forms was made by the AAs before finalising the assessments. The other AETCs did not furnish any reply.

Absence of cross-verification led to acceptance of invalid/defective forms resulting in irregular exemptions and concessions as highlighted in the preceding paragraphs.

2.8.11 Enforcement measures

We noticed the following deficiencies from the information collected (September 2011) from the Commissionerate office:

- There was no system in place to blacklist the dealers who had been found to be utilising invalid/fake declaration forms in the past and circulation of the details of such dealers among various units and States.
- A system to monitor such dealers regularly to watch any further mischief did not exist.
- An investigation wing for checking inter-state transactions did not exist in the Department.

The Department may consider strengthening enforcement measures to detect cases of invalid/fake declaration forms.

We carried out cross verification of 1,670 'C' forms and 359 'F' forms pertaining to 25 States including Union Territory.

8 BBN, Kangra, Mandi, Sirmour, Solan and Una

The results of cross verification are discussed in the succeeding paragraphs.

2.8.11.1 Incorrect grant of concessions/exemptions on fake 'C' forms

Section 8 of the CST Act read with Rule 12 of the CST (R&T) Rules, provides that every dealer, who in the course of interstate trade or commerce, sells to a registered dealer, goods of the 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. 1st April 2007 and two *per cent* 1st June 2008) of such turnover provided such sales are supported by declaration in form 'C'. Otherwise, tax is leviable at the rate of 10 *per cent* or at the rate applicable under the State Act, whichever is higher upto March 2007 and at the rate applicable in the State with effect from 1st April 2007. Besides, interest at the prescribed rates is also leviable on the unpaid amount of tax.

Cross verification revealed that four 'C' forms involving interstate sales of ₹ 36.81 lakh used by four dealers, were found fake as the dealers involved in these transactions were either non-existent or the forms were not issued to them by the AAs of the concerned States[9]. The assessments for the years 2004-05 to 2006-07 of these dealers were framed between February 2009 and December 2009 allowing grant of concession of tax of ₹ 1.64 lakh. Besides, interest amounting to ₹ 1.55 lakh and minimum penalty of ₹ 41,000 was also leviable.

After we pointed this out, the Department stated (December 2011) that the AETC, Sirmour had been asked to take immediate action in the matter. The audit would be informed of the progress in due course of time.

2.8.11.2 Misutilisation of 'C' forms

In two districts[10], two dealers availed concessional rate of tax on sale of ₹ 93.13 lakh against two 'C' forms. The assessments for the years 2005-06 and 2007-08 of these dealers were framed between October 2008 and February 2010. Cross verification of these forms with the assessment records of the concerned issuing dealers in their States[11] revealed that these 'C' forms were issued to another dealer and not to the dealers who availed concessions on interstate sales. This resulted in incorrect grant of concession of tax amounting to ₹ 7.05 lakh besides, interest of ₹ 6.16 lakh and minimum penalty of ₹ 1.76 lakh were also leviable on the tax.

9 Chandigarh, Haryana, Madhya Pradesh and Utter Pradesh
10 Solan (Baddi) and Sirmour at Nahan
11 Delhi, Meghalaya and Punjab

2.8.11.3 Misutilisation of 'F' forms

Section 6-A of the CST Act, read with Rule 12(5) of the CST (R&T) Rules, provides that exemption of tax to a registered dealer is granted in case of branch transfer/consignment sale, provided they are supported by a declaration in form 'F'.

In two districts[12], two dealers availed exemptions on transfer of stock valuing ₹ 67.67 lakh against four 'F' forms. The assessments of these assessees were framed between July 2009 and March 2010. On cross verification of these forms with the assessment records of the concerned issuing dealers in their States[13] we noticed that these 'F' forms were issued to another dealer and not to the dealers who availed exemption on transfer of stock. This resulted in incorrect grant of exemption of tax to the tune of ₹ 5.74 lakh besides, interest of ₹ 4.93 lakh and minimum penalty of ₹ 1.43 lakh were also leviable.

After we pointed this out, the Department stated (December 2011) that the cases of the dealers were under process.

2.8.11.4 Excess exemption of tax allowed by inflating the transaction figures in 'C' forms

On cross verification of four 'C' forms of selling dealers with the records of four purchasing dealers of three States[14], assessed between October 2008 and July 2010, we noticed that as against purchase of ₹ 4.34 crore shown by the purchasing dealers in their utilisation certificates submitted to the assessing authorities of the concerned states (Delhi, Meghalya and Uttarakhand) the dealers claimed and were allowed exemption of ₹ 55.26 lakh on the strength of 'C' forms. In the absence of any mechanism of cross verification of the genuineness of the transactions, the AAs could not detect the irregularity committed by the dealers. This resulted in excess exemption of tax of ₹ 6.26 lakh. Besides, interest of ₹ 5.94 lakh and minimum penalty of ₹ 1.57 lakh was also leviable.

After we pointed this out, the Department stated (December 2011) that the cases of the dealers were under process.

2.8.11.5 Suppression of Sales

In two States[15] in the cases of two dealers assessed for the years 2005-06 and 2006-07 between January 2010 and July 2010 by the AETC Nahan, we noticed that the dealers had taken less value of the inter-State sales by ₹ 43.86 lakh i.e. total sales of ₹ 2.03 crore shown in 'C' forms by the purchasing dealers was taken at ₹ 2.47 crore. The suppression of ₹ 43.86 lakh could not be detected during assessment proceedings by the AAs which resulted in evasion of tax by ₹ 5.48 lakh besides, interest of ₹ 5.15 lakh and minimum penalty of ₹ 1.37 lakh.

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12 Solan (Baddi) and Sirmour at Nahan
13 Punjab and Meghalaya
14 Delhi, Meghalaya and Uttrakhand
15 Delhi and Uttrakhand

After we pointed this out in audit, the Department stated (December 2011) that the cases of the dealers (Sirmour) were under process.

2.8.12 Misuse of declaration forms by purchasing dealers

In two AETCs[16] verification of data relating to 'C' forms of other States[17] revealed that during 2005-06 to 2007-08, in four cases inter-State sale of goods worth ₹ 1.43 crore was made on which tax concession of ₹ 9.03 lakh had been availed by the selling dealers. We noticed in cross check of assessment files and utilisation statements of the purchasing dealers that 'C' forms used in the above purchases were issued to other selling dealers and not to the dealers from whom the goods were actually purchased. Thus, the 'C' forms were misutilised by the purchasing dealers for concealment of interstate purchases of ₹ 1.43 crore involving tax effect of ₹ 9.03 lakh. Besides, interest of ₹ 7.17 lakh and minimum penalty of ₹ 2.26 lakh was also leviable.

After we pointed this out in audit, the Department stated (December 2011) that all the cases of the AETCs were under process.

2.8.12.1 Concealment of inter-State purchases

In 17 cases, cross verification of records viz. assessment files and utilisation statements of purchasing dealers of Himachal Pradesh with selling dealers of other States revealed that sales amounting to ₹ 10.18 crore were shown in the accounts of selling dealers i.e. in declaration forms 'C'. However, the purchasing dealers had accounted for purchases of ₹ 2.36 crore only. In the absence of any provision of cross verification of genuineness of transactions, the AA could not detect the irregularity. This resulted in concealment of inter-State purchases amounting to ₹ 7.82 crore and thus resulted in evasion of tax amounting to ₹ 77 lakh besides, interest of ₹ 80.50 lakh and minimum penalty of ₹ 19.25 lakh was also leviable on it.

After we pointed this out, the AETC Nahan stated (August 2011) that action would be taken against the defaulters/dealers as per provisions of the Act/rules. Final reports on action taken have not been received (December 2011).

16 BBN and Solan
17 Gujarat, J&K and MP

2.8.12.2 Irregular exemption of tax without submission of declaration form 'C'

Under the provisions of the CST Act, industrial units eligible for exemption under the Himachal Pradesh Sales Tax Concessions Scheme may claim exemption from payment of tax on their interstate sales provided that the sales are made to registered dealer and supported by declaration in form 'C'. The production of form 'C' has been made mandatory with effect from 11 May 2002.

Our scrutiny of assessment records of AETCs, Mandi and Sirmour revealed that while finalising (between February 2007 and November 2010) assessments for the years 2003-04 to 2006-07 of four industrial units, which were exempted from payment of tax within the State under Himachal Pradesh Sales Tax/VAT concession scheme to industrial units were allowed exemption from payment of tax on interstate sale valued at ₹ 53.03 crore though the transactions were not supported with 'C' forms as required under the CST Act. Thus, allowance of exemption without declaration forms was irregular and resulted in non-levy of tax of ₹ 11.05 crore including interest of ₹ 4.75 crore.

2.8.13 Invalid and defective 'C' forms

The 'C' form is issued by a purchasing dealer in two copies. The copy marked 'original' is enclosed by the selling dealer with his return and the copy marked 'duplicate' is retained by purchasing dealer in his records. It has been judicially held[19] that production of original 'C' form for claiming concessional rate of tax is mandatory to prevent the form being misused for the commission of fraud and collision with a view to evade payment of tax.

Our test check the records of six AETCs[18] and ETO Kinnaur (between May 2010 and March 2011) revealed that while finalising the assessments of 53 dealers between May 2007 and July 2010 for the period 2004-05 to 2008-09, the AAs irregularly allowed concessional rate of tax on interstate sales valued at ₹ 159.92 crore on the basis of invalid/defective 'C' forms. This resulted in short levy of tax of ₹ 12.14 crore including interest of ₹ 4.66 crore as detailed in **Annexure-II**.

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18 BBN, Kangra, Mandi, Shimla, Sirmour, Solan and Una

19 Commissioner Sales Tax versus M/s Prabhu Dayal Prem Narayan (1988) 71 STC (SC) and M/s Delhi Automobiles Private Limited versus Commissioner of Sales Tax (1997) 104 STC 75 (SC)

2.8.14 Single declaration in form 'F' covering transactions for more than one calendar month

Under the CST Act, when any dealer claims exemption from payment of tax in respect of goods by reason of transfer of such goods to any other place of his business outside the State, he may furnish to the AA, a declaration in form 'F' duly filled in and signed by the transferee along with evidence of dispatch of such goods. If the dealer fails to furnish such declaration, then the movement of goods shall be deemed for all purposes to have been occasioned as a result of sale. As per Rule 12(3) of CST (R&T) Rules 1957, one 'F' form is to cover the transactions of only one calendar month.

Our scrutiny of records of four AETCs[20] between May 2010 and January 2011 revealed that the AAs while finalising assessments between August 2008 and July 2010 in respect of 11 dealers for the assessment years 2004-05 to 2008-09, allowed exemption of tax on transfers of stock worth ₹ 31.35 crore against 33 'F' forms. Since the 'F' forms furnished by the dealers contained transactions covering more than one calendar month, transactions beyond one month in each form were not covered by valid declaration and thus liable to be taxed as interstate sales. This resulted in non-levy of tax of ₹ 6.24 crore including interest of ₹ 1.97 crore.

2.8.15 Allowance of stock transfer on duplicate 'F' forms

In two AETC Offices[21], our scrutiny of records between October and November 2010 revealed that while finalising assessments of seven dealers from March 2007 to December 2009 for the assessment years 2004-05 to 2006-07, the AAs allowed deduction from interstate sale on account of stock transfers amounting to ₹ 6.73 crore against declaration in duplicate form 'F'. The irregular allowance of exemption of tax on duplicate forms resulted in non-levy of tax of ₹ 1.29 crore including interest of ₹ 50 lakh.

2.8.16 Incorrect allowance of exemption on transfer of goods to places not included in registration certificate

Under the CST Act and Rules made thereunder, a dealer seeking registration is required to specify in the application for registration, the list of places of business in other States along with address of every such place and particulars of registration under the CST Act. Further, in case of stock transfer to consignment agents, copies of agreement are required to be furnished by the dealer for claiming exemption.

We test checked the records of AETCs, BBN and Sirmour (between October 2010 and November 2010) and noticed that three dealers were assessed for the years 2004-05 to 2008-09 between March 2007 and July 2010. Our scrutiny revealed that the AAs while framing the

20 BBN, Mandi, Sirmour and Solan
21 BBN and Sirmour

assessments allowed exemption on transfer of goods worth ₹ 80.72 crore made to branches/consignment agents, though the places to which branch transfers were made had not been included in the registration certificate of the dealers. This irregular exemption resulted in non-levy of tax of ₹ 4.73 crore including interest of ₹ 1.46 crore.

2.8.17 Exemption of tax on incomplete 'F' Forms

Under the CST Act and rules framed thereunder, declaration in form 'F' complete in all respect i.e. bearing registration number, date of issue by the transferee, transport details etc. should be furnished to avail exemption from levy of tax on account of the branch transfer.

We test checked the records of two AETCs[22] between May 2010 and October 2010 and noticed that in two cases[23], two dealers availed exemption on stock transfer worth ₹ 127.51 crore on the basis of incomplete 'F' Form. Our scrutiny revealed that required details such as name and address of the selling dealer and RC number; number and date of railway receipt or postal receipt or goods receipt with trip sheet of lorry or any other document indicating the means of transport or date on which the delivery was taken by the transferee had not mentioned. In one case[24], the dealer erased and rewrote the months and address of the transferor shown in the 'F' forms with ball pen by using correction fluid so as to cover the transactions made during the year 2008-09

In the absence of above details, these forms were *prima-facie* liable to be rejected and stock transfers of ₹ 127.51 crore taxed as per the provisions of the Act. Improper scrutiny of these forms by the AAs resulted in non-levy of tax of ₹ 27.77 crore including interest of ₹ 11.85 crore.

2.8.18 Conclusion

There were several system deficiencies that affected the efficiency and effectiveness of the assessment and collection of CST revenue. A reliable database of revenue foregone on account of exemptions which is a pre-requisite for informed decision making was absent. The Department did not keep samples of current and obsolete declaration forms of other States. There was no system for cross verification of declaration forms submitted by the dealers of other States for claiming concessions and exemptions of tax on account of interstate sale. In the absence of guidelines and a prescribed check list of points to be seen prior to acceptance of declaration forms, the AAs accepted declaration forms which were *prima-facie* defective. The internal control mechanism within the Department was weak as evident by the non-maintenance of stock register of declaration forms and defective/improper maintenance of issue register.

22 Shimla and Solan
23 Shimla and Solan
24 Shimla

Though TINXSYS system is available with the Department, the same was rarely used for cross verification and progress of uploading the data relating to 'C' and 'F' forms was also negligible.

2.8.1 Recommendations

The Government may consider:

- **assessing the requirement of declaration form on a realistic basis to avoid balances of unused forms;**
- **uploading samples of valid declaration forms from other States on the departmental website for reference in case of doubt;**
- **putting in place a system for maintaining a database of the concessions and exemptions of CST and the revenue foregone on this account;**
- **strengthening enforcement measures to detect the cases of invalid/ fake declaration forms;**
- **maintaining the computerised database of declaration forms issued and utilised to keep track on the pending utilisation statements; and**
- **prescribe check lists for scrutiny of genuineness of declaration forms.**

2.9 Other Audit observations

Scrutiny of the assessment records of sales tax/value added tax (VAT) revealed several cases of non-observance of provisions of Acts/Rules, non/short levy of tax/interest,wrong deduction of material cost, excess/incorrect allowance of input tax credit and incorrect application of rate of tax etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Every year we point out such omissions on the part of Assessing Authorities (AAs), but not only do the irregularities persists, these also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of the internal audit.

2.10 Non-observance of provisions of the Acts/Rules

The Himachal Pradesh General Sales Tax (HPGST)/Himachal Pradesh Value Added Tax (HPVAT) Act and rules provide for:

(i) levy of tax and interest at the prescribed rate;

(ii) correct determination of turnover.

The AAs while finalising the assessments did not observe some of the above provisions in some cases as mentioned in the paragraphs 2.11 to 2.18. This resulted in non/short levy/non-realisation of tax/interest of ₹ 3.19 crore.

2.11 Incorrect allowance of input tax credit (ITC)

Nine AETCs[25]

Under section 11 (3) of the HPVAT Act 2005, ITC shall be allowed to the extent of the amount of input tax paid by the purchasing dealer on the purchase of taxable goods made by him in the State, from a registered dealer. As per notification of May 2007, the amount of input tax credit shall be admissible to a dealer on the purchase value of the goods sold by him during the tax period.

We noticed that no provision has been incorporated in the annual returns to establish quantum of sales made from tax paid purchases to regulate adjustment of ITC. We noticed between May 2010 and January 2011 from the trading and profit and loss accounts of 44 dealers available in the assessment files that during 2007-08 and 2008-09 the purchase value of the stock in hand was ₹ 22.39 crore and ₹ 4.17 crore respectively. ITC was not admissible to the dealers on closing stock of ₹ 9.66 crore[26] remaining unsold in respect of purchases made within the State during

[25] Baddi, Barotiwala and Nalagarh: one dealer: ₹ 2.80 lakh; Bilaspur: nine dealers: ₹ 14.75 lakh; Hamirpur: one dealer: ₹ 2.15 lakh; Kangra: two dealers: ₹ 15.63 lakh; Mandi: 11 dealers: ₹ 18.20 lakh; Sirmour: three dealers: ₹ 7.72 lakh; Shimla: two dealers: ₹ 4.41 lakh; Solan: seven dealers: ₹ 31.75 lakh and Una: eight dealers: ₹ 20.70 lakh

[26] Local tax paid purchases involved in the closing stock has been worked out in the ratio of local tax paid purchases to total purchases multiplied by closing stock. This amount has further been apportioned tax rate wise in the same ratio as was of local tax paid purchases.

these years. Our scrutiny revealed that the AAs while finalising (between January 2009 and November 2010) assessments of these dealers for 2007-08 and 2008-09, erroneously allowed ITC on the entire local purchases of ₹ 74.03 crore instead of allowing it on proportionate basis on the turnover of purchases actually sold by them during the tax period. This resulted in excess allowance of ITC of ₹ 86.69 lakh. The dealers are liable to pay interest of ₹ 31.42 lakh on incorrect benefit of ITC passed on to them.

After we pointed out the cases between May 2010 and January 2011, the AETC Bilaspur intimated (March 2011) that cases of five dealers, out of nine had been reassessed and additional demand of ₹ 5.82 lakh created, out of this ₹ 1.56 lakh was recovered. Further report on recovery and reply of the remaining AETCs have not been received (December 2011).

We reported the matter to the Department and the Government between July 2010 and February 2011. We have not received their replies (December 2011).

The Government may consider incorporating a provision in the annual returns to establish quantum of sales made from tax paid purchases to regulate adjustment of ITC.

2.12 Incorrect deduction of cost of material

Five AETCs[27] (16 contractors)

The HPGST/HPVAT Act provide that sale includes transfer of property in goods involved in execution of works contracts. As per ETC's instructions of December 2008 if the material is partly or wholly supplied by the contractee and value thereof is set off against the payment of contractors, the value of the material so supplied shall not be deducted from the Gross Turnover (GTO) for the purpose of assessment of tax. If a dealer fails to pay the tax due by the prescribed date, he becomes liable to pay interest at the rate of one *per cent* on the tax due for a period of one month and at the rate of one and a half *per cent* per month thereafter, till the default continues.

We noticed between August 2010 and January 2011 from the assessment records that the AAs while finalising (between April 2009 to March 2010) the assessments of 16 contractors for the years falling between 2003-04 and 2008-09, allowed deduction of ₹ 8.47 crore from the GTO on account of material supplied by the Departments to them for the execution of the Departmental works. The deduction allowed was irregular as supply of the material by the Departments to the contractors tantamount to sale. This resulted in underassessment of the tax of ₹ 44.69 lakh on which interest of ₹ 22.81 lakh was also leviable. The details are given in **Annexure-III**.

We reported the matter to the Department and the Government between November 2010 and February 2011. We have not received their replies (December 2011).

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27 Hamirpur: Three contractors; Mandi: One contractor; Sirmour: One contractor; Shimla: Six contractors and Una: Five contractors.

2.13 Excess allowance of input tax credit (ITC)

Two AETCs[28]

Under the HPVAT Act, ITC is allowed to the extent of the amount of input tax paid by the purchasing dealer on the purchase of taxable goods made by him in the State, from a registered dealer. As per rule 22 of HPVAT Rules, the ITC in respect of branch transfers shall be availed only to the extent by which the amount paid in the State exceeds four *per cent.*

We noticed between May 2010 and November 2010 from the trading accounts, annual returns and assessment orders that during the years 2005-06 to 2008-09, two dealers had made purchases valued at ₹ 239.60 crore after paying input tax of ₹ 9.78 crore. The dealers had made branch transfers of ₹ 22.87 crore out of gross turnover of ₹ 294.66 crore. The dealers were not entitled to ITC of ₹ 6.35 lakh[29] on the branch transfers as the rate of tax paid goods involved in the branch transfer was four *per cent*. However, the AAs while finalising (between April 2009 and January 2010) the assessments of these dealers allowed the same. This resulted in excess allowance of ITC of ₹ 9.18 lakh including interest of ₹ 2.83 lakh.

We reported the matter to the Department and the Government between July 2010 and January 2011. We have not received their replies (December 2011).

2.14 Incorrect determination of turnover

AETC Kangra

As per Section 2(v) (iv) of the HPVAT Act, sale includes transfer of the right to use any goods for any purpose for cash, deferred payment or other valuable consideration.

2.14.1 We noticed between June 2010 and August 2010 from the trading accounts that four dealers received hire charges of ₹ 35.87 lakh on account of machinery for the period 2005-06 to 2008-09. But the dealers did not include the amount of hire charges in their respective returns and did not pay any tax on it. The AAs while finalising the assessments of these dealers between June 2009 and March 2010 did not detect the mistake though the details of such charges were available in the trading accounts. This resulted in short levy of tax of ₹ 6.21 lakh including interest of ₹ 1.73 lakh.

We reported the matter to the Department and the Government in September 2010. We have not received their replies (December 2011).

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28 Sirmour: One dealer: ₹ 4.43 lakh and Solan: One dealer: ₹ 4.75 lakh.

29 The inadmissible amount of ITC worked out on the basis of branch transfer divided by gross turnover multiplied by ITC claimed.

Five AETCs[30]

As per Section 2(v) of the HPVAT Act, sale means any transfer of property in goods for cash or for deferred payment or for any other valuable consideration other than a mortgage, hypothecation, charge or pledge. It has been judicially held[31] that freight or delivery charges incurred by the selling dealer in making the goods available to the purchaser at the place of sale are includible in sale price.

2.14.2 We noticed between June 2010 and November 2010 from the assessment records that the AAs, while finalising (between December 2007 and March 2010) the assessments of eight dealers for the period 2005-06 to 2008-09, did not levy tax on freight charges of ₹ 2.53 crore received by them. Non-inclusion of the freight charges in the turnover had resulted in underassessment of tax of ₹ 47.34 lakh including interest of ₹ 15.77 lakh.

We reported the matter to the Department and the Government between September 2010 and January 2011. We have not received their replies (December 2011).

2.15 Non/short levy of interest

Two AETCs[32]

Under HPGST/HPVAT Act, if a dealer fails to pay the tax due by the prescribed date, he becomes liable to pay interest at the rate of one *per cent* on the tax due for a period of one month and at the rate of one and a half *per cent* per month thereafter, till the default continues.

We noticed between August 2010 and January 2011 from the assessment records that the AAs, while finalising the assessments of 13 dealers between March 2009 and January 2010, for the years falling between 1999-2000 and 2008-09, created tax demands of ₹ 19.71 lakh. We further observed that in the case of 12 dealers of Shimla district, the AAs did not levy interest of ₹ 2.35 lakh on the tax demands of ₹ 13.10 lakh created against them while in the case of Bilaspur district, the AA incorrectly levied interest of ₹ 8.16 lakh instead of ₹ 9.47 lakh on the tax demand of ₹ 6.61 lakh. This resulted in non-realisation of Government revenue of ₹ 3.66 lakh.

After we reported the matter to the Department and the Government (November 2010 and February 2011), the Department intimated (August 2011) that in case of AETC Shimla, the cases had been reassessed and additional demand of ₹ 1.92 lakh created and recovered. Further report on recovery and reply of the Government had not been received (December 2011).

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30 BBN: One: ₹ 3.36 lakh; Kangra: Four: ₹ 16.74 lakh; Shimla: One: ₹ 10.28 lakh; Sirmour: One: ₹ 7.32 lakh and Una: One: ₹ 9.64 lakh

31 Supreme Court Judgment in the case of 'Black Diamond Beverages v/s Commercial Tax Officer (1997) 107 STC 219 (SC): AIR 1997 SC 3550: 1998 (1) SCC 458

32 Bilaspur and Shimla

2.16 Short levy of purchase tax

AETC Una

As per the HPVAT Act if a dealer purchases any taxable good from any source, on the purchase of which no tax has been paid and dispatches such goods or the goods manufactured there from for consumption or sale outside the State to his branch or commission agent he is liable to pay tax on the purchase value of such goods. *Khairwood* is taxable at the general rate of 12.5 *per cent* with effect from April 2005.

We noticed in October 2010 from assessment records that three dealers had purchased *khairwood* valued at ₹ 34.67 lakh during the years 2005-06 and 2006-07 and manufactured *katha* there from. As the dealers dispatched the goods manufactured from the *khairwood* valued at ₹ 1.26 crore for sale outside the State to their branches against 'F' forms, they were liable to pay purchase tax on the purchase value of *khairwood*. However, the AAs while finalising (between July 2008 and February 2010) the assessments of these dealers incorrectly levied tax at the rate of eight *per cent* instead of 12.5 *per cent*. This resulted in short levy of tax of ₹ 2.71 lakh including interest of ₹ 1.15 lakh.

We reported the matter to the Department and the Government in November 2010. We have not received their replies (December 2011).

2.17 Irregular allowance of exemption by transfer of documents during interstate sale against Form 'E-I'

Under the provisions of the CST Act, 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 a registered dealer, shall be exempted from levy of tax provided such sale is supported by a declaration in form 'E-I' duly filled by the selling dealer along with form 'C'.

Our test check of records of AETCs Mandi and Sirmour between October 2010 and January 2011 revealed that the AAs while finalising (between August 2008 and December 2009) the assessments of three dealers for the period 2005-06 and 2007-08, exempted turnover of ₹ 70.12 lakh from payment of tax as goods sold in transit. Our scrutiny disclosed that the sale was not supported by declaration in form 'C' and thus, exemption allowed by the AAs without these forms was incorrect. This resulted in non-levy of tax of ₹ 5.07 lakh including interest of ₹ 1.76 lakh.

We reported the matter to the Department and the Government in August 2011. We have not received their replies (December 2011).

2.18 Deleting of condition of annual turnover for availing exemption of tax retrospectively on inter state sale

The Excise and Taxation Department, Government of Himachal Pradesh vide notification dated February 2002 had allowed exemption on manufacture of tractors by a unit for a period of five years from the date of its commencing commercial production. The conditions for availing exemption was that the dealer should have annual turnover of at least ₹ 200 crore after three years from the commencement of production. The said condition was deleted vide HP Government notification dated January 2010.

We test checked the records of AETC, BBN between October and November 2010 and noticed that one industrial unit did not fulfill the condition of annual turnover of ₹ 200 crore for availing exemption in the course of inter-state trade. The dealer did not deposit the tax for the year 2004-05 on inter-state sale. The Government vide notification dated January 2010 deleted the condition as laid down by earlier notification dated February 2002. Delay in finalisation of assessment of the dealer for the year 2004-05 and deleting the condition of annual turnover prescribed for availing exemption of tax, resulted in undue benefit to the dealer and loss of revenue amounting to ₹ 1.77 crore calculated at the rate of one *per cent* including interest of ₹ 88 lakh on annual turnover of ₹ 88.96 crore.

We reported the matter to the Department and the Government in August 2011. We have not received their replies (December 2011).

Chapter-III
State Excise

3.1 Tax administration

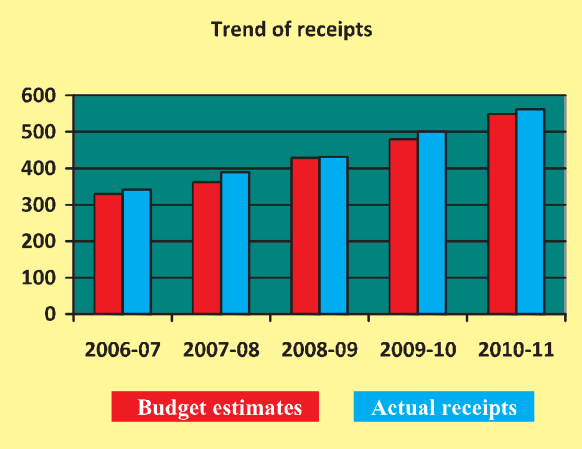
The Principal Secretary (Excise and Taxation) is the administrative head at Government level. The Department is headed by the Excise and Taxation Commissioner (ETC). The Department has been divided in three Zones[33] which are headed by the Additional ETC (South Zone), Deputy ETC of North Zone and Central Zone. Besides, 22 Excise and Taxation Inspectors under the control of the Assistant Excise and Taxation Commissioner (AETC) of the respective districts, are deputed to oversee and regulate levy/collection of excise duties and allied levies.

3.2 Trend of receipts

Actual receipts from State Excise during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	330.00	341.86	(+) 11.86	(+) 4	1,656.38	21
2007-08	362.69	389.57	(+) 26.88	(+) 7	1,958.18	20
2008-09	428.61	431.83	(+) 3.22	(+) 1	2,242.49	19
2009-10	480.07	500.26	(+) 20.19	(+) 4	2,574.52	19
2010-11	549.46	561.53	(+) 12.07	(+) 2	3,642.38	15



It would be seen from the above table that there was no major variation between the actual receipts and budget estimates prepared by the Department indicating therein that the budget estimates were prepared on a realistic basis.

33 South Zone (Shimla, Solan, Sirmour, Kinnaur and Spiti area), North Zone (Chamba, Kangra and Una) and Central Zone (Bilaspur, Hamirpur, Kullu, Lahaul area and Mandi)

3.3 Cost of collection

The gross collection in respect of state excise revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection were as follows:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
State Excise	2006-07	341.86	3.86	1.13	3.40
	2007-08	389.57	4.05	1.04	3.30
	2008-09	431.83	4.46	1.03	3.27
	2009-10	500.26	5.06	1.01	3.66
	2010-11	561.53	5.84	1.04	3.64

Source: Finance Accounts

The above table indicates that the percentage of expenditure on collection was always significantly lower than the all India average percentage during the period 2006-07 to 2009-10.

The Government needs to continue and monitor this practice of efficient tax collection.

3.4 Impact of audit

During the last five years (including the current year's report), we have pointed out 15 cases on non/short recovery of license fee and interest on late payment of license fee, non-realisation of duty on excess wastage, low yield of spirit from molasses, short recovery of fixed fee etc., with revenue implication of ₹ 14.18 crore. The Department/Government had fully/partially accepted audit observations in seven cases involving ₹ 1.65 crore. The details are shown in the following table:

(₹in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	1	NMV	Nil	Nil	Nil	Nil
2007-08	3	127.00	2	124.57	2	109.39
2008-09	3	1,065.00	3	29.13	3	21.62
2009-10	4	147.00	2	6.57	2	2.89
2010-11	4	78.79	1	4.40	1	3.45
Total	**15**	**1,417.79**	**8**	**164.67**	**8**	**137.35**

The Department had so far recovered ₹ 1.37 crore in respect of accepted cases. This is indicative of the fact that the Department had not been able to enforce recovery even in accepted cases.

The Government may consider introducing a mechanism for ensuring prompt recovery of revenue involved in accepted cases.

3.5 Results of audit

In 2010-11, our test check of the records of 37 units relating to excise duty, license fee receipts etc., revealed non/short realisation of excise duty/license fee/interest/penalty and other irregularities involving ₹ 3.64 crore in 48 cases, which fall under the following categories:

(₹ in crore)

Sr. No.	Categories	Number of cases	Amount
1.	Non/short realisation of excise duty	07	1.25
2.	Non/short realisation of license fee, interest/penalty	31	2.11
3.	Other irregularities	10	0.28
Total		**48**	**3.64**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 11.68 lakh in six cases which were pointed out in earlier years. An amount of ₹ 3.45 lakh was realised in two cases during the year 2010-11.

A few illustrative cases involving ₹ 39.33 lakh are mentioned in the following paragraphs:

3.6 Audit observations

Scrutiny of the records in the offices of the Excise and Taxation Department revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of excise duty, fees, interest etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Every year we point out such omissions in audit, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit so that occurrence of such cases can be avoided.

3.7 Non-compliance of provisions of the Act/Rules

The Punjab Distillery Rules (PDR), 1932 as applicable to the state of Himachal Pradesh provide:

(i) norms for manufacture of rectified spirit from molasses;

(ii) levy of fixed fee, additional fee and interest at prescribed rates.

The AETCs did not observe some of the above provisions in the cases mentioned in paragraphs 3.8 to 3.11 which resulted in non/short levy of excise duty/fixed fee/additional fee/interest of ₹ 39.33 lakh.

3.8 Low yield of spirit from molasses

Assistant Excise and Taxation Commissioner (AETC) Una

As per norms fixed under Rule 37 read with Rule 35 of the Punjab Distillery Rules 1932, as applicable to Himachal Pradesh, 1.49 quintal of molasses shall yield 454.60 litres of wash and 100 litres of wash will yield 12 litres of spirit. As such, one quintal of molasses will yield 36.61 proof litres of spirit.

We noticed in January 2011 from the molasses receipt and issue register and spirit issue register that a distillery[34] used 2,33,489 quintals of molasses for manufacture of rectified spirit (RS) during 2009-10. Against the yield of RS of 85,48,032.29 proof litres as per prescribed norms, the actual yield was shown as 82,88,859.50 proof litres. Thus, 2,59,172.79 proof litres of RS involving excise duty of ₹ 25.92 lakh was short produced for which no reasons were on record.

We reported the matter to the Department and the Government in March 2011. We have not received their replies (December 2011).

34 M/s Rangar Breweries Ltd., Mehatpur, Una

3.9 Loss of revenue due to less fixation of liquor quota

AETC Bilaspur

Minimum guaranteed quota (MGQ) of Country Liquor (CL) and Indian Made Foreign Spirit (IMFS) as allotted by the Excise and Taxation Commissioner to each district is further distributed vend-wise by the AETC incharge of the concerned districts. Trends of lifting/consumption of previous years serve as a fair guide to fix the quota of each vend. The Excise announcements for the year 2009-10 provided for grant of additional quota to the extent of 15 *per cent* at the rate of 25 *per cent* and a further 35 *per cent* at the rate of 50 *per cent* of the prescribed license fee if the MGO of any vend has been lifited in full.

We noticed in February 2011 from the statements of annual quota that liquor quota for Bilaspur district for 2009-10 was fixed less by five *per cent* as compared to the previous year. As against MGQ of 16.97 lakh Proof Litres (PLs) of CL/IMFS, MGQ of 16.20 lakh PLs of CL/IMFS was fixed for 2009-10. The overall reduction in quota was subsequently apportioned amongst vends of this district. Out of 121 vends, as many as 47 vends exhausted their allocated quota much before close of the year and drew 43,911 PLs of CL/IMFS as additional quota by paying 25 *per cent* of the license fee. As a result, the Department had to forgo revenue of ₹ 39.46 lakh on account of lesser fixation of MGQ for this district.

We reported the matter to the Department and the Government in March 2011. We have not received their replies (December 2011).

3.10 Non-levy of interest on late deposit of license fee

Two AETCs[35]

Excise announcements for the years 2008-09 and 2009-10 provide that full monthly instalments of license fee based on MGQ of liquor fixed for each vend is required to be paid by the last day of each month and the last instalment for the month of March shall be paid in full by 15th of March. The announcements also provide for levy of interest at the rate of 10 *per cent* per annum upto one month and 18 *per cent* per annum thereafter in case of late payment of license fee.

3.10.1 We noticed during January and March 2011 from M-2 register[36] that three licensees had deposited license fee of ₹ 49.31 lakh belatedly (between June 2009 and August 2010) for the years 2008-09 and 2009-10. The delay ranged between two and 518 days. They were therefore liable to pay interest of ₹ 2.88 lakh on the belated payments. However, the concerned AETCs did not levy the same. This resulted in short recovery of revenue to that extent.

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35 Sirmour: Two licensees: ₹ 82,000 and Shimla: One licensee: ₹ 2.06 lakh

36 It contains total demand for a particular year against vends and recovery of monthly instalments thereof (like a demand and collection register).

We reported the matter to the Department and the Government between March and April 2011. We have not received their replies (December 2011).

Two AETCs[37]

Rule 9.5 of the Punjab Distillery Rules, 1932 stipulates that the licensee shall pay quarterly license fee within seven days of the expiry ot each quarter. In the event of failure to pay the fee by the due date, interest at the rate of 12 *per cent* per annum upto one month and if the default in payment exceeds one month, interest at the rate of 18 *per cent* per annum for the entire delay shall be payable.

3.10.2 We noticed between July 2010 and March 2011 from the license fee register that two distilleries[38] in Solan and Sirmour district deposited (between August 2008 and January 2011) quarterly license fee of ₹ 85.68 lakh belatedly for the years 2007-08 to 2009-10. The delay ranged between 15 and 518 days. Interest of ₹ 4.40 lakh on these belated payments was leviable but not demanded by the AETCs. This resulted in short recovery of revenue to that extent.

After we reported the matter to the Department and the Government between September 2010 and April 2011, they accepted the audit observation and intimated (August 2011) that ₹ 3.45 lakh had been recovered from two licensees. Further report on recovery has not been received (December 2011).

3.11 Non-recovery of license fee and interest

AETC Bilaspur

The licensee shall be required to lift the Minimum Guaranteed Quota (MGQ) as fixed for each vend. In case the licensee is unable to lift the proportionate MGQ within a month, he shall still be required to pay the full instalment of license fee for that month. If the licensee fails to deposit the license fee plus interest upto the last day of the next month or the last installment by 15th March, the AETC/ETO, incharge of the district would ordinarily seal the vend on the first day of the following month or 16th of March as the case may be. In the case of continued default in payment, the Departmental officers were empowered for recovery of outstanding Government dues as Arrears of Land Revenue (ALR).

We noticed in February 2011 from M-2 register that a unit was allotted to a licensee[39] with 48,420 proof litres of MGQ of country liquor having annual license fee of ₹ 46 lakh for the year 2008-09. Although the licensee did not pay the full instalment of proportionate monthly license fee of ₹ 3.83 lakh from April 2008 onwards, he continued his business during the year and the AETC did not take any action to seal vend. The proposal for re-auctioning of the unit was sent to the

37 BBN: ₹ 2.41 lakh and Sirmour: ₹ 1.99 lakh

38 M/s Himalayan Gold Beverages (P) Ltd., Nalagarh and M/s Yamuna Beverages Pvt. Ltd., Paonta Sahib

39 M/s Rajinder Chaddha, Roura Sector III, Bilaspur

Deputy Excise and Taxation Commissioner (CZ) Mandi in July 2008 and to the Excise and Taxation Commissioner (ETC) in January 2009. The ETC observed in February 2009 that it would not be appropriate to re-allot the unit at this advanced stage of the financial year and directed the AETC that pressure may be kept on the licensee to recover the maximum license fee to avoid loss of Government revenue. Thus, due to inaction and indecisiveness on the part of the Department to seal vend and re-allot the unit, the Department could recover only ₹ 23.76 lakh against the annual license fee of ₹ 46 lakh from the licensee. This resulted in non-recovery of ₹ 32.05 lakh including interest of ₹ 9.81 lakh calculated upto March 2011.

We reported the matter to the Department and the Government in March 2011; we have not received their replies (December 2011).

Chapter-IV
Taxes on Vehicles, Goods and Passengers

4.1 Tax administration

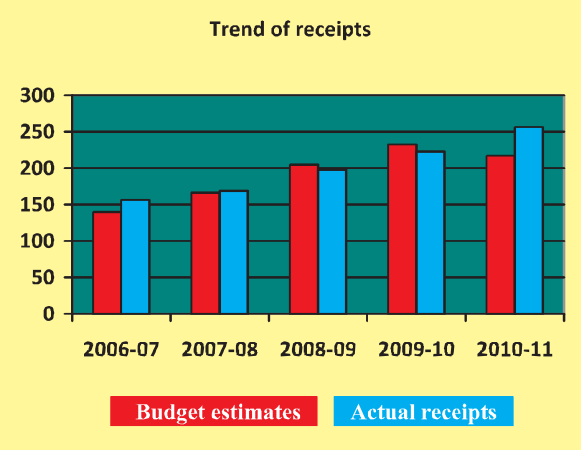
The receipts from the Transport Department are regulated under the provisions of the Central and the State Motor Vehicle Acts and rules made thereunder and is under the administrative control of the Director Transport, who is assisted by a team of officers/staff in the performance of his duties relating to levy and collection of receipts from the Motor Vehicles. The receipts from the goods and passengers tax are regulated under the provisions of the Himachal Pradesh Passengers and Goods Taxation Act 1955, which are administered by the Excise and Taxation Commissioner of the state.

4.2 Trend of receipts

Actual receipts from taxes on motor vehicles, goods and passengers tax during the last five years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	140.00	156.57	(+) 16.57	(+) 12	1,656.38	9
2007-08	166.35	168.84	(+) 2.49	(+) 2	1,958.18	9
2008-09	205.16	197.92	(-) 7.24	(-) 4	2,242.49	9
2009-10	232.52	222.71	(-) 9.81	(-) 4	2,574.52	9
2010-11	217.19	256.48	(+) 39.29	(+) 18	3,642.38	7



It would be seen from the above that the variation between the actual receipts and the budget estimates prepared by the Department remained between two to (-) four *per cent* except during 2006-07 and 2010-11 when it was 12 *per cent* and 18 *per cent* respectively.

4.3 Cost of collection

The gross collection in respect of taxes on vehicles, goods and passengers revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection were as follows:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
Taxes on vehicles, goods and passengers	2006-07	156.57	1.90	1.21	2.61
	2007-08	168.84	2.73	1.62	2.47
	2008-09	197.92	1.75	1.00	2.58
	2009-10	222.71	2.53	1.14	2.93
	2010-11	256.48	2.17	0.85	3.07

Source: Finance Accounts

The above table indicates that the percentage of expenditure on collection was always lower than the all India average percentage during the period 2006-07 to 2009-10.

The Government needs to continue and monitor this practice of efficient tax collection.

4.4 Impact of audit

During the last five years (including the current year's report), we have reported 40 audit observations with revenue implication of ₹ 89.53 crore. Of these, the Department/Government had accepted/partially accepted audit observations in 35 cases involving ₹ 47.79 crore and had since recovered ₹ 6.01 crore. The details are shown in the following table:

(₹ in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	07	380.00	7	354.15	6	45.56
2007-08	09	565.00	9	547.48	7	86.83
2008-09	10	662.00	6	367.25	6	96.63
2009-10	06	6,165.00	5	3,213.17	5	355.20
2010-11	08	1181.00	8	297.38	5	16.38
Total	**40**	**8,953.00**	**35**	**4,779.43**	**29**	**600.60**

This is indicative of the fact that the Department had not been able to enforce prompt recovery even in accepted cases.

The Government may consider introducing a mechanism ensuring recovery against accepted cases in a time bound manner.

4.5 Results of audit

In 2010-11, our test check of the records of 64 units relating to token tax, special road tax, registration fee, permit fee, driving license fee, conductor license fee, penalties and composite fee under the National Permit Scheme revealed under assessment of tax and other irregularities involving ₹ 31.90 crore in 253 cases, which fall under the following categories:

(₹ in crore)

Sr. No.	Categories	Number of cases	Amount
1.	**Computerisation in the Transport Department (A Performance audit)**	1	0.00
2	**Non/short realisation of**		
	• Token tax and composite fee	108	11.65
	• Passenger and goods tax	19	0.47
3.	**Evasion of**		
	• Token tax	23	0.53
	• Passenger and goods tax	19	0.46
4.	**Other irregularities**		
	• Vehicles tax	83	18.79
Total		**253**	**31.90**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 8.08 crore in 193 cases, which were pointed out in earlier years. An amount of ₹ 43.49 lakh was realised in 69 cases during the year 2010-11.

A performance audit of **"Computerisation in the Transport Department"** and few illustrative cases involving ₹ 26.52 crore are mentioned in the following paragraphs:

4.6 Performance Audit on Computerisation in the Transport Department

Highlights

- Lack of various controls such as application controls, process controls, validation controls etc. in the 'VAHAN' software resulted in incomplete database maintained by the registering authorities (RAs).

(Paragraphs 4.6.9.1 to 4.6.9.4)

- Necessary controls to levy penalty/fine at the prescribed rates were not built in the software leading to non/short levy of penalty/fine.

(Paragraphs 4.6.9.5, 4.6.9.7 & 4.6.9.8)

- The certificates of fitness of 18,854 transport vehicles renewable as on 31 March 2011 were not renewed and fee amounting to ₹ 47.71 lakh remained unclaimed/unrecovered.

(Paragraph 4.6.9.6)

- Due to non-maintenance of central server giving access to all the RAs across the state there was duplication of data leading to increase in the number of records of vehicles in the database of different RAs.

(Paragraph 4.6.14)

4.6.1 Introduction

The Transport Department of the Government of Himachal Pradesh implements the Motor Vehicle Act, 1988 as applicable to the State of Himachal Pradesh, Central Motor Vehicles Rules 1989, Himachal Pradesh Motor Vehicles Rules (HPMVR), 1974, HPMVR, 1999 and rules framed thereunder. The levy and collection of token tax and special road tax is governed by the Himachal Pradesh Motor Vehicles Taxation (HPMVT) Act, 1972 as amended from time to time.

The Transport Department is responsible for collection and accounting of receipts relating to registration of vehicles, issue of driving licences, permits, taxes, fees etc. as per the provisions contained in the State and Central Motor Vehicles Acts and rules.

4.6.2 Organisational set up

The Principal Secretary (Transport) is the administrative head while the Director Transport is the head of the Department (HOD). They are assisted by an Additional Director-cum-Secretary, State Transport Authority (STA) Shimla, 10 Regional Transport Officers (RTOs) including transport barriers functioning under the respective RTOs, three flying squads and 54 Registering and Licensing Authorities (R&LAs) in the 12 districts. The responsibilities of Secretary, STA include registration and licensing of tourist (vehicles) taxis, omnibuses, issue of national permits and collection of different fees etc. All other kinds of permits authorising the use of vehicles in the State are issued by

the RTOs. Besides, the work of registration of vehicles (other than those registerable by the STA) and collection of token tax, special road tax (SRT) and other fees etc. has been entrusted to RTOs and R&LAs. The Director, Transport is responsible for computerisation in the Transport Department whereas reviewing powers rests with the Principal Secretary (Transport) to the Government of Himachal Pradesh.

4.6.3 Objectives of computerisation

Computerisation in the Transport Department was envisaged with a view to prevent leakage of revenue. To enable various Registering Authorities (RAs) to check the driving licences, registration certificates (RCs) and permits throughout the country in an efficient manner and to strengthen the regulatory functions of such authorities, the Ministry of Road Transport and Highways (MoRTH), Government of India (GOI) got developed 'VAHAN'[40] and 'SARATHI'[41] applications (1999) from the National Informatics Centre (NIC) to adopt a standardised data format and software for the purpose of issuing driving licences and registration of motor vehicles and maintaining their databases so that a National register as well as State register of motor vehicles and driving licences could be prepared. Customisation of the software as per local needs and integration support at the back end on a central server was to be provided by the State NIC.

Computerisation of the Transport Department in the State was started in 2002. The system is running on a two tier architecture using Windows as the operating system with Visual Basic as the front end tool and Microsoft SQL Server/Oracle as the back end tool.

4.6.4 Scope of Audit

The performance audit was conducted during June 2011 to October 2011 covers the computerisation activities in the Transport Department for the period August 2002 to August 2011. The offices of 16 RAs[42] (out of 65 RAs) were selected for field study by adopting simple random sampling. Database maintained by these offices was analysed using Computer Aided Audit Techniques (CAATs).

4.6.5 Audit objectives

The performance audit was conducted with a view to assess whether:

- rules and regulations governing the collection of taxes, fees and fines were duly complied with;
- the computerised system ensures that the data captured was complete and correct;
- the information generated by the system was reliable;

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40 For registration of vehicles and collection of Motor Vehicle taxes

41 For issuance of Driving/Conductor licenses

42 State Transport Authority, Shimla, Four Regional Transport Officers: Dharamsala, Mandi, Shimla and Solan and 11 RLAs: Banjar, Hamirpur, Jawali, Kandaghat, Kangra, Karsog, Kullu, Palampur, Shimla (Urban), Sundernagar and Una.

- the registration/licences database was complete; and
- connectivity was established between RTOs in the State for creation of the State Registers of Vehicles and licences and the National Registers.

4.6.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing necessary information and records for audit. An entry conference was held in August 2011 in which the objectives, scope and methodology of audit were explained. In the course of the performance audit, the audit observations were issued to the RAs alongwith soft copy of the cases. The draft review report was forwarded to the Government in December 2011 for their response. The exit conference was held in December 2011 with the Principal Secretary (Transport) along with representatives of the NIC. The views of the Government have been incorporated in the relevant paragraphs.

4.6.7.1 IT Steering Committee

An IT Steering Committee comprising of the users and the top management is essential for overseeing development and implementation of any IT system.

We found that an IT State level committee comprising the top management and NIC officials is in existence to monitor the implementation of the project.

4.6.7.2 Plan for computerisation and its implementation

The Government of India approved (March 2003) a pilot project for the Transport Department in Himachal Pradesh. Under this project a sum of ₹ 79.05 lakh was received for computerisation of RTO, Dharamsala and eight Registering and Licensing Authorities in Kangra District. The first instalment of ₹ 30 lakh was released (March 2004) and the project was to be implemented by NICSI, New Delhi within 12 months from the release of the first instalment of funds. We noticed that the Department has computerised (October 2006) the Directorate, RTOs Dharamsala and Shimla and eight RAs in Kangra district under this project resulting in delay in implementation by one and a half years.

Thereafter the roll out in computerisation in the remaining 54 RAs was completed by July 2011 through e-governance societies formed in September 2005. The expenditure on hardware, furniture and fixtures and site preparation was met out of the receipts from the user charges of these societies. These societies were also responsible for expenditure on maintenance of hardware, software, labour charges, printing of stationery used in generating computerised documents etc.

After we pointed this out, the Department stated (December 2011) that the delay was due to late receipt of funds, preparation of site, customisation of software, installation of hardware and software and networking.

4.6.7.3 Hardware supplied by the NIC

It was noticed during audit that the details of hardware purchased out of ₹ 79.05 lakh received under 'pilot project for Kangra district' could not be ascertained as the work entrusted to National Information Centre Services Inc. (NICSI) included preparation of site, installation and procurement of hardware and software etc. in the total package.

On the demand of the State Government in June 2010, the MoRTH sanctioned the following hardware items to be supplied through NICSI. The hardware was supplied to all the 65 RAs in the State at their respective locations by the NICSI between September 2010 and January 2011. The cost of the hardware as per invoices except switches was ₹ 2.56 crore.

Sl. No.	Name of item	Quantity
1	Server	65
2	Client Slim PC	260
3	Laser printer	195
4	Webcam	65
5	Signature Pad	65
6	UPS 5 KVA	65
7	Switch	65

We noticed that hardware received (Server System: one, Slim PC: four, Printers: three, Webcam: one and UPS: one) by RTO Dharamsala was lying unutilised except for the PCs.

The RTO Dharamsala stated that the hardware could not be used due to pending renovation of the building.

4.6.7.4 Project documentation

User Requirements Specification (URS) describes what users require from the system. User requirement specification is written early in the validation process, typically, before the system is created. The System Design Document (SDD) describes the system requirements, system and sub system architecture, files and database design etc.

We found that though the User manuals were available with the Department but other relevant documents such as User Requirement Specification (URS) and System Design Documents (SDD) were not available.

After we pointed this out, the NIC during the exit conference (December 2011) stated that SRS is available with the State NIC and SDD is available with the NIC, HQ New Delhi.

4.6.8 Inadequacies in implementation of general controls

General controls create the environment in which the application systems and application controls operate e.g. IT policies, standards and guidelines pertaining to IT security and information protection.

The observations in this regard are given in the following paragraphs:

4.6.8.1 Lack of security policy

The information security policy through physical and logical controls restricts access to the system only to authorised individuals.

We noticed that no security policy had been formulated and documented by the Department. No guidelines had been issued to the RAs for protection of hardware and software of the system. Preventive and detective measures like installing and updating antivirus software, user's ID and passwords were left to the discretion of the RAs. Passwords of less than eight characters were also found in all the test checked units.

After we pointed this out, the Government stated (December 2011) that necessary guidelines on security policy would be prepared by the NIC and circulated to the RAs.

4.6.8.2 Logical access control

We observed that although each operator had different user ID and passwords, the operators shared their passwords with each other and in case of unavailability of any user, the work of that user was being done by the other users by utilising his/her password. This informal methodology adopted was fraught with risk of loss of trail for any unauthorised entries. There was no documented password policy circulated specifying the need to change the password periodically. Therefore, the system was exposed to the risk of unauthorised access and consequent data loss.

The user master table contains the details of authorised users of the computer system. We noticed that 49 users[43] **(Annexure-IV)** whose names did not exist in the User Master table had entered 70,314 records in the 'owner' table in all the test checked RAs.

The Department stated that these users were created during backlog entries and were subsequently deleted from the master table. The reply is not acceptable as entries from the master table should not be deleted.

During the exit conference the Government stated (December 2011) that a password policy would be drafted by the NIC and circulated among the RAs.

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[43] RTO Mandi (1) and RLAs Banjar (1), Hamirpur (6), Jawali (3), Kandaghat (1), Kangra (8), Karsog (2), Kullu (5), Palampur (17), Shimla (Urban) (1), Sunder Nagar (2) and Una (2)

4.6.8.3 Physical access control

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

We noticed that in all the test checked RAs the vehicle owners after duly filling up the necessary forms and depositing the requisite fee/dues, brought the documents to the concerned computer operator inside the computer centres. The unauthorised entry of persons put the system and data at risk of unauthorised intentional/accidental manipulation/destruction.

During the exit conference the Government stated (December 2011) that a policy on physical access controls will be framed by the NIC and circulated among the RAs.

4.6.8.4 Environmental controls

Environment controls are aimed at ensuring that the assets are not put to risk. This requires that risk assessment and preventive measures be undertaken prior to implementing the project.

We noticed that the Department had neither undertaken any risk assessment nor had put any preventive measures like disaster management plans, business continuity plans etc. in place before putting the system in use.

During the exit conference the Government stated (December 2011) that necessary action would be taken to ensure the safety of data in case of disaster/ natural calamity.

4.6.8.5 Lack of change management control

Once a system is implemented, change management controls should be put in place to ensure that the changes to the system are authorised, tested and documented and to see that there is adequate audit trail. The request for changes should be signed by the designated authorities of the Department and all the changes should be tested before they are put to use in the live environment.

We observed that there was no laid down authorisation procedure related to changes/modifications carried out in the 'VAHAN' and 'SARATHI' software. There was absence of trail in the software as to whether the changes sought for had been carried out and approved only after due testing. There was no documentation of the changes sought for and their approval and testing, though a lot of changes had been made in the software as per local needs for updating data, enhancing facilities or for other reasons.

After we pointed this out, the NIC stated (December 2011) that changes in the software are done on the basis of requests received from the Government. The Government also agreed to maintain documentation of changes made in future.

4.6.8.6 Inadequate segregation of duties

We observed that the staff responsible for data entry was also doing the work of authorisation/approval as all rights for authorisation of data entry were provided to data entry staff in all the RAs test checked in audit.

After we pointed this out, the Government while accepting the audit observations stated (December 2011) that necessary instructions would be issued to the RAs.

4.6.9 Deficiencies noticed in database

Analytical review of data generated by 'VAHAN' package as implemented in the 16 test checked RAs revealed a number of deficiencies related to absence of processing controls.

4.6.9.1 Lack of control over monitoring of duplicate engine/chassis number

Chassis and Engine number of the vehicle consists of alphanumeric figures and are the unique identification marks of a vehicle which are essential for its registration under the provisions of the MV Act and Rules made thereunder.

We noticed in audit that there were no validation checks on engine number in the application being used to ensure that a vehicle with its unique identification was not re-registered without cancellation of the previous registration.

Analysis of the data maintained by 11 test checked RAs[44] revealed that in 222 records, the engine number was left blank and in 635 out of 1,199 and 122 out of 247 records, the engine number and chassis number, respectively, were found duplicate **(Annexure-V)**. While comparing the manual records with the electronic data, we observed that the manual records showed the correct chassis/engine number, the computerised database contains backlog data which were not validated at the time of data entry.

After we pointed this out, the Government while accepting the audit observation stated (December 2011) that these entries would be corrected.

The Government may consider providing appropriate validation control in the application to avoid duplicate engine/chassis numbers.

4.6.9.2 Lack of control over duplicate Insurance Certificate/Cover Note number

As per provisions of the MV Act and rules made thereunder, every vehicle has to be insured before its registration. A valid insurance certificate is required to be furnished along with the application for registration of the vehicle by the owner.

Test check revealed that the RAs did not verify whether the insurance cover note submitted along with the application for registration of vehicle was actually valid or not. Moreover, there was no

44 RTO Mandi and RLAs Hamirpur, Jawali, Kandaghat, Kangra, Karsog, Kullu, Palampur, Shimla (Urban), Sunder Nagar and Una

validation check in the system to ensure that the insurance cover note submitted for a particular vehicle was not re-used for registration of other similar vehicles. Data analysis of 12 RAs[45] revealed that the insurance company and its cover notes for a particular vehicle were common for two or more vehicles in 396 out of 2,082 cases **(Annexure-VI)**. It was also noticed that insurance cover notes in respect of 52,132 vehicles have not been captured. While comparing with the manual records, we observed that the manual records show the correct insurance certificate/cover note number. The computerised database contains backlog data which were not validated at the time of data entry.

After we pointed this out, the Government while accepting the audit observation stated (December 2011) that these entries would be corrected.

4.6.9.3 Plying of vehicles with lapsed registration

As per the MV Act, a certificate of registration in respect of a motor vehicle, other than a transport vehicle, shall be valid only for a period of 15 years from the date of issue of such certificate. No such vehicle shall be used in any public place until its certificate of registration is renewed.

Scrutiny of the database maintained in 16 test checked RAs revealed that registration of 15,792 vehicles **(Annexure-VII)** had expired. The enforcement staff of the Department, however, failed to utilise the information available with the Department and detect these vehicles plying with expired registration certificate.

4.6.9.4 Incomplete details of vehicles/licenses

As per the Central Motor Vehicles Rules, form 20 has been prescribed for registration of vehicles which contain information about the vehicles to be registered in 34 fields. The 'VAHAN' package provides for capture of all the information in the 'Owner' table. Similarly, the 'SARATHI' package provides for capturing data of licenses in 'llicense' and 'ddlicense' tables.

Analysis of the database revealed that data in the 'VAHAN' package was partially captured even in crucial fields. Data entry in some of the important fields such as date of purchase of the vehicles, father's name of registered owner, address, vehicles maker's name, vehicle mode, engine number, seating capacity, horse power, unladen weight, month and year of manufacture etc. have not been captured in many cases.

In the 'SARATHI' software we noticed that information in the crucial fields viz. identification marks, test result, designation of the test taking authority, date of test etc. were not/partially captured.

In both the softwares, these fields were not made mandatory for capturing crucial information.

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45 RTO Mandi and RLAs Banjar, Hamirpur, Jawali, Kandaghat, Kangra, Karsog, Kullu, Palampur, Shimla (Urban), Sunder Nagar and Una

After we pointed this out, the Government/NIC stated (December 2011) that incomplete entries might have been entered in the software during the backlog entries and that instructions will be issued to RAs to validate the data.

4.6.9.5 Delay in registration of vehicles

As per Rule 47 of the CMV Rules, the owner of the vehicle is required to get the vehicle registered with the registering authority within 30 days from the date of purchase of vehicle failing which minimum penalty of ₹ 100 under Section 177 of Motor Vehicle Act is leviable.

Analysis of data maintained by 16 test checked RAs revealed that 24,007 owners **(Annexure-VIII)** of vehicles applied for registration after 30 days from the date of purchase but no penalty was levied by the registering authorities. Thus due to lack of provision in the software to recover penal amount automatically after 30 days, a considerable amount on account of penalty may have escaped from being levied.

4.6.9.6 Plying of vehicles without fitness certificate

The CMV Act provides that a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness issued by the competent authority.

Scrutiny of the commercial vehicle database revealed that certificate of fitness of 18,854 transport vehicles of different categories[46] (MGV, LMV, LGV and HMV) expired as on 31 March 2011 which were not got renewed by the owners of the vehicles for which fitness fee involving ₹ 47.71 lakh **(Annexure-IX)** was to be recovered. It was also found that there is no practice of issuing notices to the owners for getting the fitness certificate renewed.

During the exit conference, the NIC stated (December 2011) that this problem could only be resolved once the software is made web enabled for which steps are being taken.

4.6.9.7 Lack of validation checks

The 'VAHAN' software has a module for token tax collection for a specific period at the receipt counter and a receipt is issued to the owner of the vehicle.

We noticed that after issue of receipt, the concerned dealing assistant has to clear the tax details in the sub-menu 'Tax clearance' under 'Tax module' by entering the date upto which the tax has been deposited instead of its clearance at the time of issue of receipt. In the absence of validation check on the field while entering dates for clearance of tax, reliability of data could not be ensured and chances of suspected fraud cannot be ruled out. Further, it was noticed that if tax clearance is not done after issue of receipt, the defaulter report generated through the 'VAHAN' will give wrong result.

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46 MGV: Medium Goods Vehicle, LMV: Light Motor Vehicle, LGV: Light Goods Vehicle, HMV: Heavy Motor Vehicle

After we pointed this out, the Government stated (December 2011) that changes in the software would be carried out after considering the proposal of the NIC.

The Government may consider providing suitable control to clear the tax payment automatically at the time of issue of receipt.

4.6.9.8 Non-levy of fine by the system

Rule 4-A of the HPMV Rules, as amended from time to time provides for levy of penalty at the rate of 25 *per cent* per annum of the tax due from the owner of the vehicle if the owner fails to pay the tax due under Section 3 of the HPMV Act. Evasion of revenue can be checked by incorporating adequate application checks in the software.

We noticed that necessary controls to levy penalty/fine at the prescribed rates had not been built into the software and the matter was left to the discretion of the RAs leaving chances of non/short levy of fine/penalty.

After we pointed this out, the Government stated (December 2011) that changes in the software would be carried out.

The Government may consider suitable control to calculate the penalty/ fine automatically.

4.6.10 Partial utilisation of software

In 'VAHAN' software, provision exists for theft report, pollution updation cases etc.

We noticed that out of 16 test checked RAs, four RAs[47] are not using the Theft Report module. The pollution module is not being used by any of the test checked RAs.

After we pointed this out, the Government stated (December 2011) that necessary instructions would be issued to RAs to use these modules.

4.6.11 Non-utilisation of Enforcement module

Enforcement module of 'VAHAN' software provides for capturing data pertaining to work of the enforcement wing. The detail of fines imposed/collected from the offending owner of the vehicles can be entered in the software.

We noticed that this module is not being used in all the RAs test checked. During field inspection, the enforcement staff, challans the vehicles and collects the fine by issuing TR-5 receipts. The fine so collected is deposited through challan in respective treasury and entry to this effect is made in the cash book. However, no entry is made in the 'VAHAN' software.

47 RTO Dharamsala and RLAs Banjar, Hamirpur and Karsog

The Government stated (December 2011) that the enforcement module is under testing and will be implemented shortly. However, the Government did not furnish any specific reasons for non-utilisation of the enforcement module.

4.6.12 Creation of State Register and National Register

Sections 63 and 26 of the MV Act and Rules 75 and 23 of the CMV Rules prescribe the maintenance of a State Register of motor vehicles in Form 41 and a State Register of driving licenses in Form 10 respectively for supplying the information to the Central Government. The main objective of the 'VAHAN' and 'SARATHI' softwares is to create a National Register of vehicles to serve as a national database for registered vehicles.

We found that the State register as prescribed by the Central Government in respect of data relating to Vehicle Registration and Driving Licenses is being maintained by the NIC. The NIC captures the data from the server of the RAs across the State for preparation of the State Register. However, the data of RAs at Dodra Kawar, Kaza and Pangi is being ported manually using secondary media as these RAs have not been connected through the Himachal State Wide Area Network (HIMSWAN).

The data from the State Register, thus, accumulated is replicated to the NIC data centre at Hyderabad to generate the National Register. However, the data structure of the State Register and National Register was not made available to audit.

The Government stated (December 2011) that matter regarding connectivity of RAs at Dodra Kawar, Kaza and Pangi is being taken up with the BSNL authorities to provide network connectivity.

4.6.13 Non-existence of central server system

The Transport Department has authorised (February 2008) RTOs at the District Headquarters level and RLAs at Sub Division level to issue fitness certificates for transport vehicles. The owner of the vehicle has to deposit fitness fee with the concerned RA authorised for issuing fitness certificates. For this purpose, the record of the vehicle is picked up from the 'owner' table. If the vehicle pertains to other RAs, it has first to be entered in the 'owner' table and only then can fitness fee be deposited. Once the vehicle is entered in the 'owner' table, it creates duplicate records as one vehicle appears in the record of two or more RAs. Moreover, the RA who is authorised to issue fitness certificate of the vehicles does not intimate the concerned RA where the vehicle is originally registered, due to which the record of the original RA can not be updated. This also increases the number of records in the 'owner' table.

We found that no central server system was established in the Department linking all the RAs of the State. In the absence of a central server system, the

RAs were unable to access data of the other RAs. The deficiencies noticed in the database identified through a test check in three RAs[48] are discussed below:

- The Registration codes 'HP68', 'HP40', 'HP37' were allotted to RTO Dharamsala, RLA Kangra and RLA Palampur respectively. The database maintained by these RAs was cross checked. We found that the 'owner' table of RTO Dharamsala contains 1,310 vehicles of 'HP40' and 1,696 vehicles of 'HP37', which were also appearing in the 'owner' tables of RLA Kangra and Palampur, respectively.

- Similarly, the 'owner' tables of RLA Palampur and Kangra contains 142 and 92 vehicles of 'HP68' series which were also appearing in the RTO Dharamsala's database. This indicates that these vehicles were registered in RTO Dharamsala without getting no objection certificate (NOC) from the RLA, Kangra and Palampur and *vice versa*.

- In 386 cases[49] though the registration number was the same, yet the class of vehicle was different in the database of two RAs.

After we pointed this out, the Government stated (December 2011) that vehicle owners as per their convenience get the fitness certificates renewed from the authorised RAs. For this purpose the vehicle has to be entered in the owner table before the process of issuing fitness certificate is started. The NIC stated that suitable modification in the software is being carried out to avoid unnecessary increase of data in the 'owner' table.

The Government needs to establish a centralised server to facilitate data access to all the RAs in the State. Suitable controls need to be built in the application to avoid duplication of data.

4.6.14 Conclusion

The performance audit revealed that various controls such as application controls, process control, validation control etc. were either absent or not effective. Inadequate application controls in the system had led to inconsistent and incomplete database maintained by the RAs. There was also duplication of data due to non-maintenance of central server giving access to all the RAs in the State. The data entered through backlog entries was not validated. Some of the modules were not being utilised.

4.6.15 Recommendations

The Government may consider implementing the following recommendations:

- **providing appropriate validation control in the application to avoid duplicate engine/chassis numbers.**

- **providing suitable control to clear the tax payment automatically at the time of issue of receipt.**

48 RTO Dharamsala and RLAs Kangra and Palampur
49 RTO Dharamsala: 15 cases, RLA Kangra: 270 cases and RLA Palampur: 111 cases

- **introducing suitable controls to calculate the penalty/fine automatically.**

- **establishing a centralised server to facilitate data access to all the RAs in the State. Building suitable controls in the application to avoid duplication of data.**

4.7 Other Audit observations

Scrutiny of the records in the offices of the Transport Department relating to revenue received from taxes on vehicles, goods and passengers revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty/token tax and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. We point out such omission in audit each year, but not only do the irregularities persist; they also remain undetected till an audit is conducted. There is need for the Department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

4.8 Non-observance of the provisions of Acts/Rules

The Himachal Pradesh Motor Vehicles Taxation Act (HPMVT), 1972 and Rules provide for:

(i) *payment of motor vehicles tax/token tax by the owner of the vehicle at the prescribed rate;*

(ii) *token tax to be paid in advance and within the prescribed period; and*

(iii) *payment of special road tax, permit renewal fees/registration fee at prescribed rate.*

The Transport Department did not observe some of the provisions of the Act/Rules in cases as mentioned in the subsequent paragraphs for levy and collection of the tax. This resulted in non/short realisation of tax/permit renewal fee of ₹26.52 crore.

Taxes on vehicles

4.9 Non-realisation of token tax

29 RLAs, nine RTOs and STA Shimla

Under the Himachal Pradesh Motor Vehicles Taxation (HPMVT) Act, 1972, and rules made thereunder, token tax by vehicle owners is payable in advance quarterly or annually in the prescribed manner. If an owner of motor vehicle fails to pay the tax due within the prescribed period, the taxation authority after giving him an opportunity of being heard, shall direct him to pay in addition to tax, a penalty at the rate of 25 *per cent* per annum of the tax due.

We test checked between May 2010 and January 2011 the Token Tax Registers of 29 Registering and Licensing Authorities (RLAs)[50], nine Regional Transport Officers (RTOs)[51] and State Transport Authority (STA) Shimla and noticed that for 5,173

[50] Amb, Banjar, Bilaspur, Bharmour, Chamba, Chowari, Churah, Dalhousie, Dehra, Dharamsala, Ghumarwin, Jaisinghpur, Kangra, Keylong, Kullu, Manali, Mandi, Nahan, Nalagarh, Nurpur, Paonta Sahib, Rajgarh, Rampur, Rohru, Shimla (Urban), Shimla (Rural), Solan, Sundernagar and Una

[51] Bilaspur, Chamba, Dharamsala, Hamirpur, Kullu, Mandi, Shimla, Solan and Una

vehicles[52], token tax amounting to ₹ 2.23 crore for the years 2008-09 to 2009-10, was not deposited by the vehicle owners. There was nothing on record to indicate that any initiative had been taken by the taxation authorities to recover tax from the defaulters. This resulted in non-recovery of token tax of ₹ 2.23 crore. Besides, penalty at the prescribed rate was also leviable for non-payment of tax.

After we pointed out the cases between June 2010 and January 2011, the Department intimated between March and August 2011 that six RLAs and two RTOs[53], had been recovered ₹ 9.61 lakh in respect of 159 vehicles and efforts were being made to recover the balance amount. Further report on recovery and reply of remaining taxation authorities have not been received (December 2011).

The matter was reported to the Government between June 2010 and February 2011; we have not received their reply (December 2011).

4.10 Non-payment of SRT by Private Stage Carriages (PSCs)

10 RTOs

As per the HPMVT (Amendment) Act, 1999, there shall be levied, charged and paid to the State Government, a special road tax (SRT) on all transport vehicles used or kept for use in Himachal Pradesh and will be payable in advance on the 15th of every month.

Our scrutiny between June 2010 and January 2011 of the SRT Registers of ten RTOs[54], revealed that in 206 cases, SRT amounting to ₹ 72.15 lakh for the period 2009-10 was not paid by the owners of the vehicles of PSCs. The RTOs neither initiated any action for the recovery of SRT due nor issued any notices to the owners of the vehicles. Minimum penalty leviable under the Act had not been levied by the RTOs.

After we pointed out (June 2010 to January 2011) in audit, the Director Transport, Shimla intimated between June 2011 and August 2011 that ₹ 82,000 (Mandi: ₹ 41,000 and Solan: ₹ 41,000) have been recovered by RTOs Mandi and Solan and notices were issued to the remaining vehicle owners to deposit the outstanding amount of tax.

We reported the matter to the Department and to the Government between July 2010 and February 2011; we have not received their replies (December 2011).

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52 Buses/mini buses/stage carriages: 452 cases: ₹ 85.31 lakh; Construction equipment vehicles: 201 cases: ₹ 17.41 lakh; Goods carriers/other vehicles: 2,650 cases: ₹ 52.59 lakh; Tractors: 623 cases ₹ 10.01 lakh and Maxi cabs/motor cabs: 1,247 cases: ₹ 57.59 lakh

53 RLA Amb: 34 vehicles: ₹ 1.33 lakh; Chamba: 12 vehicles: ₹ 31,500; Dalhosie: 14 vehicles: ₹ 43,500; Nalagarh: 37 vehicles: ₹ 4.93 lakh; Solan: 1 vehicle: ₹ 37,000; RTO Dharamsala: 16 vehicles: ₹ 89,000 and RTO Mandi: 16 vehicles: ₹ 83,000

54 Bilaspur: 20 cases: ₹ 10.06 lakh; Chamba: 92 cases: ₹ 4.44 lakh; Dharamsala: 19 cases: ₹ 16.78 lakh; Hamirpur: 12 cases: ₹ 3 lakh; Kullu: 10 cases: ₹ 3.45 lakh; Mandi: 04 cases: ₹ 1.29 lakh; Nahan : 08 cases: ₹ 3.19 lakh; Shimla: 10 cases: ₹ 9.70 lakh; Solan: 21 cases: ₹ 13.30 lakh and Una: 10 cases: ₹ 6.94 lakh

4.11 Non-recovery of tax/penalty

Nine RTOs

As per Transport Department's notification dated 26 July 2006, if SRT is not paid on due dates, a penalty at the rate of 25 *per cent* per annum of the SRT shall be leviable which shall not exceed the amount of total SRT due.

Our scrutiny between June 2010 to January 2011, of the SRT Registers of nine RTOs[55] revealed that the SRT for the period from April 2009 to March 2010 aggregating ₹ 14.71 crore was not deposited by the Himachal Road Transport Corporation (HRTC) till March 2011. The delay in deposit of tax ranged between 13 months and 24 months. Minimum penalty of ₹ 5.64 crore was also leviable upto March 2011 which has not been levied.

After we pointed out (June 2009 to January 2010), the RTO Bilaspur stated that the notices would be issued to the Regional Manager of HRTC to deposit the outstanding amount.

We reported the matter to the Department and to the Government between July 2010 and February 2011; we have not received their replies (December 2011).

4.12 Short realisation of Composite fee

RTO Nahan

Under Rule 69-A of the Himachal Pradesh Motor Vehicles (First Amendment) Rules, 2005, there shall be levied, charged and paid to the State Government, a composite fee at the rate of ₹ 5,000 in lump sum to be paid in advance at the time of issue of national permit (NP), in respect of each goods carriages, authorised to ply in the State of Himachal Pradesh. The vehicles entering in the State without valid NP are required to pay the fee at transport barriers installed at entry points of the State.

We noticed from the statement of composite fee and master database between December 2010 and January 2011 that in the case of 7,050 goods carriages entering into the state through two barriers[56] under the control of RTO Nahan, composite fee was collected at the rate of ₹ 2,500 instead of ₹ 5,000 per vehicle for the period 2008-09 and 2009-10. This resulted in short realisation of composite fee of ₹ 1.76 crore.

After we pointed out, RTO Nahan intimated in January 2011 that action would be taken as per the provisions of the Act/Rules and compliance reported to the audit accordingly. The Department also admitted that the mistake occurred due

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55 Bilaspur: ₹ 32 lakh, Dharamsala: ₹ 1.59 crore, Hamirpur: ₹ 23 lakh, Kullu: ₹ 56 lakh, Mandi: ₹ 85 lakh, Nahan: ₹ 21 lakh, Shimla: ₹ 1.23 crore, Solan: ₹ 38 lakh and Una: ₹ 27 lakh

56 2008-09: Kala Amb: 4,690 vehicles: ₹ 1.17 crore and Paonta Sahib: 1,318 vehicles: ₹ 33 lakh
2009-10: Kala Amb: 822 vehicles: ₹ 21 lakh and Paonta Sahib 220 vehicles: ₹ 5 lakh

to non-updating the old rates of ₹ 2,500 to the revised rates of ₹ 5,000 per vehicle in the software at these barriers.

The matter was reported to the Department and to the Government in February 2011; further progress of recovery and reply has not been received (December 2011).

4.13 Non-deposit/late deposit of bank drafts

Two RTOs

Financial Rules stipulates that all Departmental receipts/bank drafts collected during the day should be entered into the cash book and credited into the treasury on the same day or latest by the morning of the next working day. The head of the office has to ensure the compliance of these provisions and reconcile the amounts posted in the cash book and remitted into the treasury every month.

Our scrutiny (October 2010) of the bank draft registers and cash books of two RTOs for the period 2009-10 revealed that 81 bank drafts valued at ₹ 33.16 lakh[57] were received during April 2009 and March 2010 from RTOs of other states in respect of stage carriages of those states opting for plying in Himachal Pradesh. Out of these, 79 bank drafts valued at ₹ 32.15 lakh were deposited late after an average delay of 57 days and two bank drafts valued at ₹ 1.01 lakh received in March 2010 were neither entered in the cash book nor deposited into the treasury. This resulted in non-realisation of revenue of ₹ 1.01 lakh and delayed remission of ₹ 32.15 lakh.

The above irregularities indicate that the RTOs did not exercise the prescribed checks on bank drafts register and cash books to ensure prompt deposit of bank drafts. The possibility of encashment of bank drafts in connivance with vehicle owners in such cases could not be ruled out.

The matter was reported to the Department and to the Government in November and December 2010; we have not received their replies (December 2011).

57 Bilaspur: ₹ 3.91 lakh and Solan: ₹ 29.25 lakh

4.14 Non-deposit of user charges

20 RLAs and seven RTOs

For computerisation of all transport related activities in the offices of the Registering and Licensing Authorities, e-Governance Societies under the Chairmanship of the concerned Deputy Commissioner of the respective district have been functioning since September 2005. These Societies collect user charges as approved by the Government. 25 *per cent* of these charges are required to be deposited in the Government account.

We noticed from the "Service charges collection registers" of 20 RLAs[58] and seven RTO[59] between June 2010 and January 2011 that e-Governance Societies collected ₹ 1.69 crore on account of user charges during May 2006 to March 2010. However, 25 *per cent* of receipts collected on account of user charges which worked out to ₹ 41.40 lakh, was not deposited in the Government account as required. Thus, ₹ 41.40 lakh remained out of the Government account, which also resulted in under statement of revenue to that extent. The schedule of periodical payment of 25 *per cent* of the user charges and interest/penalty to be levied in case of delayed payments etc. had not been prescribed.

After we pointed out, six RLAs[60] intimated between June 2010 and January 2011 that the matter was taken up with the Chairmen of Societies to deposit the outstanding amount in Government account. However, the Director Transport intimated in August 2011 that six RTOs[61] and RLA Dharamsala had been recovered ₹ 11.07 lakh and notices had been issued to the remaining RLAs to deposit the amount. Further reply has not been received (December 2011).

The matter was reported to the Department and to the Government between July 2010 and February 2011; we have not received their reply (December 2011).

4.15 Passengers and goods tax

The Himachal Pradesh Passengers and Goods Taxation (HPPGT) Act, 1955 and the rules made thereunder provide that the owners of contract carriages and goods carriers shall register their vehicles with the concerned excise and taxation officers and pay passenger tax and goods tax at the prescribed rates either monthly or quarterly as may be opted by them.

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58 Bilaspur, Chamba, Churah, Dalhousie, Dehra, Dharamsala, Ghumarwin, Jaisinghpur, Kullu, Nahan, Nalagarh, Nurpur, Paonta Sahib, Parwanoo, Rajgarh, Rampur, Rohroo, Shimla (Urban), Shimla (Rural) and Solan

59 Chamba, Dharamsala, Hamirpur, Nahan, Shimla, Solan and Una

60 Churah, Dalhousie, Dehra, Kullu, Nalagarh and Shimla (Urban)

61 Chamba: ₹ 95,000; Dharamsala: ₹ 2.34 lakh; Hamirpur: ₹ 87,000; Shimla: ₹ 1.69 lakh; Solan: ₹ 1.85 lakh; Una: ₹ 1.47 lakh and RLA Dharamsala: ₹ 1.90 lakh

4.16 Non-registration of Goods and Passenger vehicles

Nine AETCs[62]

Under the Himachal Pradesh Passengers and Goods Taxation (HPPGT) Act and the rules made thereunder, owners of stage/ contract carriages and goods carriers are required to register their vehicles with the concerned excise and taxation offices and pay passenger tax and goods tax at the prescribed rates. Administrative instructions issued in December 1984 stipulate that the Excise and Taxation Department shall take suitable measures to ensure registration of all vehicles under the HPPGT Act and for that purpose maintain close co-ordination with the RLAs/RTOs. For failure to apply for registration, penalty not exceeding five times the amount of tax so assessed, subject to a minimum of ₹ 500 is also leviable.

We cross verified the registration records between June 2010 and January 2011 of eight RLAs and eight RTOs with that Assistant Excise and Taxation Commissioners (AETCs) and noticed that 1,799 vehicles[63] were newly registered with the concerned RLAs and RTOs during 2009-10 but these were not found registered with the Excise and Taxation Department as required under the HPPGT Act. We noticed that there was no co-ordination between the concerned RLAs/RTOs and AETCs to ensure the registration of all the vehicles with them. As a result, tax amounting to ₹ 45.68 lakh for 2009-10 was not realised from the owners of the vehicles. Besides, a minimum penalty of ₹ 9 lakh was also leviable.

After we pointed out in audit between June 2010 and January 2011, the Excise and Taxation Commissioners (ETCs) Shimla intimated in September 2011 that an amount of ₹ 17.11 lakh (passengers tax: ₹ 6.43 lakh and goods tax: ₹ 10. 68 lakh) has been recovered from 489 vehicles of nine districts[64] and notices have been issued to the defaulters to deposited the balance amount.

We reported the matter to the Department and to the Government between July 2010 and February 2011. We have not received their replies (December 2011).

The above mistakes have been pointed out by audit in earlier Audit Reports also but no system has been devised by the Department to ensure registration of all vehicles with the Excise and Taxation Department.

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62 Bilaspur: 124 vehicles, Chamba: 218, Dharamsala: 181, Hamirpur: 95, Kullu: 93, Mandi: 62, Shimla: 560, Solan: 168 and Una: 298 vehicles

63 Passenger vehicles: 663: ₹ 19.82 lakh and Goods vehicles: 1,136: ₹ 25.86 lakh

64 Bilaspur: 87 vehicles: ₹ 5.55 lakh; Chamba: 101 vehicles: ₹ 2.39 lakh; Dharamsala: 27 vehicles: ₹ 47,000; Hamirpur: 53 vehicles: ₹ 2.28 lakh; Kullu: 48 vehicles: ₹ 1.60 lakh; Mandi: 28 vehicles: ₹ 65,000; Shimla: 19 vehicles: ₹ 86,000; Solan: 57 vehicles: ₹ 1.10 lakh and Una: 69 vehicles: ₹ 2.21 lakh

4.17 Non-realisation of Goods and Passenger tax

Nine AETCs

Under the Himachal Pradesh Passenger and Goods Taxation (HPPGT) Act and rules made thereunder, owners of vehicles are required to pay tax etc. at the prescribed rates either monthly or quarterly. However, if the owner of a vehicle fails to pay the tax due, the taxation authority may direct him to deposit the tax due alongwith a penalty not exceeding five times of the amount of tax so assessed subject to a minimum of ₹ 500.

We noticed between June 2010 and January 2011 from the demand and collection registers maintained in nine AETCs[65], that passenger and goods tax amounting to ₹ 44.43 lakh for 884 vehicles[66], for the period from April 2009 to March 2010 was not paid by the owners of the vehicles. The assessing authorities did not issue demand notices to the owners of the vehicles. This resulted in non-realisation of tax of ₹ 44.43 lakh besides minimum penalty of ₹ 4.42 lakh.

After we pointed out between June 2010 and January 2011, the ETC, Shimla intimated in May 2011 that an amount of ₹ 14.05 lakh (passengers tax: ₹ 8.60 lakh and goods tax: ₹ 5.45 lakh) has been recovered from owners of 310 vehicles of nine districts[67].

We reported the matter to the Government between July 2010 and February 2011; we have not received their replies (December 2011).

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65 Bilaspur: 70 vehicles, Chamba: 115 vehicles, Dharamsala: 49 vehicles, Hamirpur: 48 vehicles, Kullu: 240 vehicles, Mandi: 82 vehicles, Shimla: 117 vehicles, Solan: 88 vehicles and Una: 75 vehicles

66 Passenger vehicles: 440: ₹ 24.93 lakh and Goods vehicles: 444: ₹ 19.50 lakh

67 Bilaspur: 42 vehicles: ₹ 3.01 lakh; Chamba: 16 vehicles: ₹ 92,000; Dharamsala: 21 vehicles: ₹ 85,000; Hamirpur: 24 vehicles: ₹ 1.39 lakh; Kullu: 136 vehicles: ₹ 4.52 lakh; Mandi: 15 vehicles: ₹ 75,000; Shimla: 17 vehicles: ₹ 79,000; Solan: 22 vehicles: ₹ 1.01 lakh and Una: 17 vehicles: ₹ 81,000

Chapter-V
Forest Receipts

5.1 Tax administration

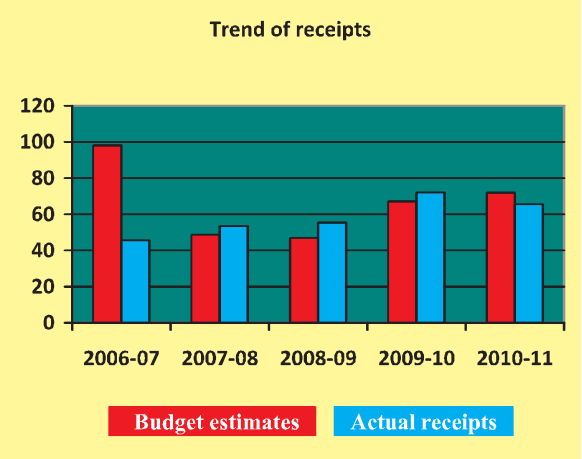
The Forest Department is headed by the Principal Chief Conservator of Forests (PCCF) under the administrative control of the Principal Secretary (Forests) who is assisted by eight Conservators of Forests (CFs) in 37 territorial divisions. Each CF controls the exploitation and regeneration of forest activities being carried out by divisional forest officers (DFOs) under their control. Each DFO is incharge of assigned forest related activities in his territorial division.

5.2 Trend of receipts

The budget estimates and the actual receipts from forest during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total (tax & non-tax) receipts of the State	Percentage of actual receipts vis-à-vis total tax/non-tax receipts
2006-07	98.02	45.55	(-) 52.47	(-) 54	2,993.23	2
2007-08	48.64	53.60	(+) 4.96	(+) 10	3,780.61	1
2008-09	46.94	55.40	(+) 8.46	(+) 18	3,998.73	1
2009-10	67.16	72.11	(+) 4.95	(+) 7	4,358.18	2
2010-11	71.77	65.44	(-) 6.33	(-) 9	5,337.69	1



It would be seen from the above that variations between the budget estimates and the actual receipts remained between (-) 54 *per cent* and 18 *per cent* during the period 2006-07 to 2010-11.

5.3 Impact of audit

During the last five years (including the current yera's report), we have featured 45 audit observations with revenue implication of ₹ 61.76 crore. of these the Department/Government had accepted/prtially accepted 27 paragraphs involving ₹ 47.62 crore and had since recovered ₹ 4.63 crore. The details are shown in the following table:

(₹ in lakh)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	11	3,475.00	7	3,268.18	5	235.27
2007-08	12	1,074.00	8	896.90	7	141.11
2008-09	10	513.00	7	378.06	6	85.61
2009-10	06	780.00	3	217.12	0	0.0
2010-11	06	333.74	2	1.81	1	0.62
Total	**45**	**6,175.74**	**27**	**4,762.07**	**19**	**462.61**

This is indicative of the fact that the Department had not been able to enforce prompt recovery even in accepted cases.

The Government may consider introducing a mechanism ensuring recovery against accepted cases in a time bound manner.

5.4 Results of audit

In 2010-11, our test check of the records of 28 units relating to forest receipts revealed non/short recovery of royalty, non-levy of interest/extension fee and other irregularities involving ₹ 39.76 crore in 171 cases, which fall under the following categories:

(₹ in crore)

Sr. No.	Particulars	Number of cases	Amount
1.	Non/short recovery of royalty	14	15.10
2.	Non-levy of interest	19	0.63
3.	Non-levy of extension fee	6	0.08
4.	Other irregularities	132	23.95
Total		**171**	**39.76**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 59.62 lakh in ten cases which were pointed out in earlier years. An amount of ₹ 48,000 was realised in one case during the year 2010-11.

A few illustrative cases involving ₹ 3.34 crore are mentioned in the following paragraphs:

5.5 Audit observations

Our scrutiny of the records in the offices of the Forest Department relating to revenue received revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of royalty/penalty/interest and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. We point out such omissions in audit each year, not only do the irregularities persist but also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

5.6 Non-observance of instructions of the Government

The instructions issued under the Indian Forest Act, 1927, by the Government/ Department provide for:

(i) *recovery of the cost of trees standing on forest land allotted to user agencies;*

(ii) *charging of the market value of all trees including sapling;*

(iii) *marking of the trees falling on road alignment;*

(iv) *payment of interest for delay in payment of royalty by the Himachal Pradesh State Forest Corporation (HPSFC); and*

(v) *tapping of resin from the trees of a prescribed diameter and height.*

We noticed non-compliance of the above rules/instructions in some cases. These have resulted in non-realisation of Government revenue of ₹ 3.34 crore and are mentioned in the following paragraphs 5.7 to 5.12.

5.7 Short/non-levy/non-crediting of departmental charges

5.7.1 Four forest divisions[68]

As per instructions of Principal Chief Conservator of Forests (PCCF), Himachal Pradesh, issued in May 2004, Departmental charges at the rate of 17.5 *per cent* were to be charged in the case of Compensatory Afforestation (CA) schemes to cover the establishment and infrastructure charges of the Department.

Our scrutiny between July 2010 and March 2011 of the CA bills raised by the Department, revealed that in eight cases of diversion of forest land for non-forestry purposes approved by the Government of India between December 2007 and March 2010, three Divisional Forest Officers (DFOs) while claiming the cost of CA of ₹ 74.74 lakh from the user agencies, did not include the Departmental charges of ₹ 13.08 lakh in seven cases. In Theog division, CA of ₹ 29.22 lakh was realised, but against the Departmental charges of ₹ 5.11 lakh, ₹ 94,000 only were realised

[68] Ani at Luhri, Bharmour, Palampur and Theog

from the user agency. This resulted in non-recovery of Departmental charges of ₹ 17.25 lakh[69].

We reported the matter to the Department and to the Government between August 2010 and April 2011. The CF in his reply (July 2011) stated that the Palampur division has raised and issued a bill for ₹ 48,000 to the user agency. We have not received the replies of the remaining divisions (December 2011).

17 forest divisions[70]

As per PCCF letter of March 2003, the amount realised on account of the Departmental charges was to be deposited as revenue of the Department instead of depositing it in compensatory afforestation head.

5.7.2 We noticed between July 2010 to March 2011 from the CA bills that 17 forest divisions had realised ₹ 8.60 crore inclusive of Departmental charges of ₹ 1.41 crore[71] between February 2006 and October 2010 on account of CA in respect of 62 cases of diversion of forest land for non-forestry purposes. The Departmental charges were deposited in CAMPA[72] account instead of depositing it in the revenue head of the Department. Thus, non-deposit of Departmental charges in the Government account resulted in understating of revenue to that extent.

We reported the matter to the Department and to the Government between August 2010 and April 2011; we have not received their replies (December 2011).

5.8 Non-levy of interest on belated payment of royalty

Seven forest divisions[73]

The pricing committee in its meeting dated February 2005 decided that the Himachal Pradesh State Forest Corporation (HPSFC) would pay interest at the rate of nine *per cent* per annum on belated payment of royalty if not paid by 30th November and 20th March, in case of high lying lots and by 15th September and 15th December for resin tapping lots. A grace period of 90 days is also allowed for payment of royalty without paying interest.

We noticed between August 2010 and March 2011 from the lot register and details of payment of royalty etc. as furnished by the HPSFC to the PCCF of seven DFOs, that 33 lots were handed over to the Corporation for exploitation during 2007-08 to 2010-11. Royalty of ₹ 2.65 crore payable

69 Ani: ₹ 3.35 lakh, Bharmour: ₹ 9.25 lakh, Palampur ₹ 48,000 and Theog: ₹ 4.17 lakh

70 Banjar, Bharmour, Chamba, Churah, Dalhousie, Dehra, Karsog, Kotgarh, Kullu, Rajgarh, Rampur, Reckong-Peo, Rohru, Shimla, Solan, Suket at Sundernagar and Una

71 Banjar: ₹ 2.46 lakh, Bharmour: ₹ 5.33 lakh, Chamba: ₹ 5.34 lakh, Churah: ₹ 2.33 lakh, Dehara: ₹ 55,000; Dalhousie: ₹ 3.14 lakh, Karsog: ₹ 2.43 lakh, Kotgarh: ₹ 1.11 lakh, Kullu: ₹ 1.72 lakh, Rajgarh: ₹ 16.75 lakh, Rampur: ₹ 7.23 lakh, Reckong-Peo: ₹ 40.95 lakh, Rohru: ₹ 13.60 lakh, Shimla: ₹ 3.99 lakh, Solan: ₹ 10.24 lakh, Suket at Sundernagar: ₹ 17.10 lakh and Una: ₹ 6.33 lakh

72 Compensatory Afforestation Fund Management and Planning Authority

73 Chopal, Karsog, Kotgarh, Nurpur, Palampur, Rampur and Reckong-Peo at Kinnaur

between March 2008 and February 2009 was however, paid between April 2009 and September 2010. The delay in payment of royalty ranged between 329 and 741 days. Interest of ₹ 38.64 lakh[74] though leviable was not demanded by the Department. We also noticed from the final accounts of the Corporation that due to non-raising of the bill, provision for interest liabilities of ₹ 38.64 lakh had not been made in the balance sheet by the Corporation.

After we reported the matter to the Department between September 2010 and April 2011; Kotgarh division stated that Corporation had been directed to pay the interest and Palampur division stated (July 2011) that bill of ₹ 40,214 on account of interest on belated payment of royalty has been raised and issued to the Corporation whereas Nurpur division stated that the bill of ₹ 78,328 for interest has been issued after reconciliation with the Corporation. The reply of the remaining divisions has not been received (December 2011).

We reported the matter to the Government between September 2010 and April 2011; we have not received their replies (December 2011).

5.9 Illicit felling of trees

Four forest divisions[75]

As per the instructions of the PCCF HP, the Block officer/Range officers are required to inspect the forests from time to time and take effective steps against illicit felling and report the matter to the higher authorities for taking action. Damage reports (DRs) are required to be issued and got signed from the offenders, if known. The cases are to be registered with the police.

5.9.1 We noticed between July 2010 and December 2010, from the register of offence cases, timber form register (MF-7) and inquiry reports submitted by inquiry officers in respect of four divisions that 141 trees were illicitly felled by offenders during December 2007 and March 2010. In three divisions[76], no DRs were issued and in Jogindernagar division, FIR with the police was registered in respect of four trees out of 23 trees felled illicitly. The case of illicit felling could not be detected by the field staff but was detected by the flying squad. In Parvati division, illicit felling was done two to 18 months, before it came to notice of the field staff. The laxity on the part of the field staff in timely detection of the offences and reporting them to the police resulted in seizure of 76.949m^3 of timber against the total volume of 198.08 m^3. The remaining 121.13 m^3 of timber was taken away by the offenders which resulted in loss of revenue to the tune of ₹ 50.39 lakh.[77]

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74 Chopal: ₹ 19.52 lakh, Karsog: ₹ 8.05 lakh, Kotgarh: ₹ 1.50 lakh, Nurpur: ₹ 78,000; Palampur: ₹ 1.02 lakh, Rampur: ₹ 4.69 lakh and Reckong-Peo at Kinnaur: ₹ 2.11 lakh

75 Ani at Luhari, Chamba, Jogindernagar and Parvati at Shamshi

76 Chamba, Jogindernagar and Parvati at Shamshi

77 Ani at Luhari: ₹ 20.03 lakh, Chamba: ₹ 5.48 lakh, Jogindernagar: ₹ 3.77 lakh and Parvati at Shamshi: ₹ 21.10 lakh

As per instructions contained in PCCF HP Shimla letter dated July 2004 the damages/illicit felling etc., detected is required to be got acknowledged/signed by the regular staff viz. Forest guard/Block Officer/Assistant Manager Corporation. In case the Corporation refuses to acknowledge/accept the damage bill preventive steps like stopping of works etc. were required to be taken immediately. The Corporation would be liable to pay the price at lease or the prevailing market rates, whichever is higher alongwith a penalty of 100 *per cent* thereof.

5.9.2 As per the clause-7 of the standard agreement lease deed, the marked trees for felling shall remain at the risk of the lessee (Corporation) after a fortnight from the date of communication of acceptance of proposal by lessee. The lessee shall be responsible for any damage caused to the forest crop in the process of forest working by negligence.

We noticed from the damage bill issued by Rohru forest division in September 2010 that 25 Deodar trees having standing volume of 34.10 m^3 were illicitly felled in the area which was handed over to the Corporation in December 2007 for exploitation of a salvage lot No. 14 marked in the compartments of 65 (a) & (b) in Khabal forest in Khashdhar Range. The RO Khashdhar raised the damage bill on the Corporation in August 2008 clearly stating that illicit felling had taken place in the compartments no. 65 (a) & (b) where lot No. 14 was marked. But the Corporation refused to accept the damage bill on the grounds that the area where illicit felling had taken place was beyond 250 meters of the working site. After noticing the illicit felling and non-acceptance of damage bill, the Department did not stop the work. As a result, revenue of ₹ 27.99 lakh (price of trees at the market rate alongwith penalty) including VAT could not be realised.

The omission was pointed out to the Department and the Government between August 2010 and February 2011; we have not received their reply (December 2011).

5.10 Non-tapping/short handing over of resin blazes

Two DFOs[78]

For scientific management of forests, division wise working plans are prepared, the prescriptions of which are required to be followed by field functionaries. As per working plans of forest divisions, two blazes are proposed to be caved for the *Chil* trees of Class IIB and above.

We noticed between August and October 2010 from the handing over list of enumerated resin blazes of two divisions that 47,538 resin blazes of class IIB[79] and above were handed over to the Corporation for tapping of resin during tapping seasons 2009 and 2010. The Corporation had caved one blaze per *Chil* tree instead of two blazes as prescribed in the

[78] Chopal and Nachan
[79] Having diameter of 50 cms and above

working plans. The field staff of Department did not notice the mistake. This resulted in non-tapping of 47,358 blazes[80] and loss of revenue of ₹ 16.51 lakh.

The omission was pointed out to the Department and the Government between September and November 2010; we have not received their reply (December 2011).

5.11 Short/non-realisation of revenue

Four DFOs[81]

The approval for diversion of forest land for non-forestry purposes is granted by the Government of India, Ministry of Environment and Forest (MoEF), in favour of a user agency on payment of a specified sum in the form of net present value. As per Departmental instructions of September 1991, the cost of trees standing on the forest land diverted/transferred for non-forestry purposes is to be recovered from the user agencies before handing over the area to them, in whose favour the approval for transfer of the forest land has been granted by the Government of India (GOI). The standing trees coming in the alignment of a project to be undertaken by the user agency are marked and handed over to the HPSFC for exploitation.

We noticed between July 2010 and March 2011 from the records of Compensatory Afforestation (CA) of four divisions that in four cases, final approval of GOI/MoEF for diversion of 345.6833 hectares of forest land for non-forestry purposes had been received between November 2007 and December 2010 after payment of Net Present Value (NPV) and CA charges as billed by the Department. The cost of 680 trees/sapling of different species[82] having standing volume of 573.27 m3 coming in the alignment of the projects, with market value of ₹ 27.32 lakh (including VAT), was however not included in the bill. As such, the same remained unclaimed and un-recovered.

The omissions were pointed out to the Department and to the Government between September 2010 and April 2011; their reply was awaited (December 2011).

5.12 Non-tapping of resin blazes

After nationalisation of forest working, resin tapping work of resin lots exclusively rests with the Corporation being the sole agent for the purpose.

We noticed from the handing over list of resin blazes of Ani forest division in August 2010 that 44,279 resin blazes were enumerated, marked and handed over to the Corporation in January 2010

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80 42.543 blazes at the rate of ₹ 35 and 4.815 blazes at the rate of ₹ 33.70

81 Dalhousie, Kullu, Reckong-Peo at Kinnour and Theog

82 *Brahmi, Chil, Deodar, Kail, Tosh, Kunish, Neoza, Popular, Rai, Robina, Willow and other B/L*

for working during 2010 tapping season. Out of this, the Corporation could tap only 2,471 resin blazes and the remaining 41,808 blazes were returned in May 2010 on the grounds that the resin blazes could not be worked as no tenderer came forward to bid. Being the sole exploiting agency, the Corporation was under obligation to manage extraction of resin or pay the royalty as resin not extracted in a season could not be saved for tapping in subsequent seasons. The Department did not raise the bill of royalty amounting to ₹ 14.63 lakh on account of these un-tapped blazes handed over for working.

After this was pointed out (August 2010), the PCCF stated (September 2010) that there was no pricing committee decision to return back marked and handed over lots on grounds that a tenderer was not coming forward. The loss, therefore, needs to be made good from the Corporation. Further reply has not been received (December 2011).

The omission was also reported to the Government in September 2010 and June 2011, we have not received their reply (December 2011).

Chapter-VI
Other Tax and Non-Tax Receipts

6.1 Tax administration

This chapter consists of receipts from Power sector projects, Revenue, Industries, Irrigation & Public Health and Public Works Departments. The tax administration is governed by Acts and Rules framed separately for each Department.

6.2 Results of audit

Test check of the records of the Multi Purpose Projects and Power, Revenue, Industries, Irrigation & Public Health and Public Works Departments, conducted during the year 2010-11, revealed non-deposit of tax and royalty etc. and other irregularities amounting to ₹ 268.41 crore in 388 cases, which fall under the following categories:

(₹ in crore)

Sr. No.	Categories	Number of cases	Amount
1.	**"Interest Receipts including Dividends and Profits" (A Performance audit)**	01	20.96
2.	Incorrect determination of market value of property/ exemption on housing loan	48	0.22
3.	Non/short levy of stamp duty and registration fee	15	0.05
4.	Non/short realisation of royalty, dead rent etc.	2	0.82
5.	Non/short recovery of water and *abiana* charges	47	14.37
6.	Non-deposit of tax and royalty etc.	08	2.62
7.	Other Irregularities	267	229.37
Total		**388**	**268.41**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 19.68 crore in 57 cases which were pointed out in earlier years. An amount of ₹ 18.29 lakh was realised in nine cases during the year 2010-11.

A performance audit of **"Interest Receipts including Dividends and Profits"** with financial impact of ₹ 20.96 crore and few illustrative cases involving ₹ 21.06 crore are mentioned in the following paragraphs:

A. Finance Department

6.3 Performance audit on "Interest Receipts including Dividends and Profits"

Highlights

- During 2005-06 to 2009-10 the Budget estimates and actual receipts fluctuated between (-) 27 *per cent* and 5,872 *per cent* indicating defective budgetary preparation.

(Paragraph 6.3.7)

- Terms and conditions of loans of ₹ 6.13 crore by Multi Purpose Projects and Power Department and Horticulture Department were not prescribed. Thus, monitoring and recovery of interest was not possible.

(Paragraph 6.3.8.3)

- Non-demanding of interest of ₹ 1.21 crore due on overdue payment of principal and interest instalments by the Multi Purpose Projects and Power Department.

(Paragraph 6.3.12)

- Budget estimation was understated by ₹ 52.05 crore as interest accrued was directly converted into equity in Agriculture, Co-operation and Horticulture Departments.

(Paragraph 6.3.13.3)

6.3.1 Introduction

Interest receipts constituted a major source[83] of non-tax revenue during 2005-06 to 2009-10. Sources of interest receipts are loans advanced to commercial units, public sector undertakings, co-operative societies, local bodies, industries, agriculturists, Government employees, interest from investment of cash balances and refund of interest from the Government of India. The loans, i.e. principal and interest are recoverable within a stipulated period in equal periodical instalments and as per terms and conditions of the sanction order. In case of default in repayment of loan or interest due as per the terms and conditions of the sanction, penal interest is also chargeable from loanees.

Dividends and profits are also received on the investment made in various Corporations/Boards, Companies, Co-operative Banks and Societies.

A review of the interest receipts covering loans disbursed by three Departments[84] was included in the report of Comptroller and Auditor General of India (Revenue Receipts)-Government of Himachal Pradesh for the year ended 31 March 2001. The Public Accounts Committee (PAC) in their Reports[85] recommended that the Departments should ensure prompt recovery of principal, interest and penal interest.

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83 Ranging between four to seven *per cent* of non-tax revenue

84 Agriculture, Co-operation and Industry

85 36th, 37th, 76th and 123rd Reports of Tenth Vidhan Sabha

The current review of "Interest Receipts including Dividends and Profits" revealed that the PAC's recommendations have not been complied with and a number of system and compliance deficiencies continue to exist. These have been discussed in the subsequent paragraphs.

6.3.2 Organisational set up

The Finance Department (FD) is the nodal agency for according sanction to the loan and investment proposals processed by the Head of the Departments (HODs) and recommended by Administrative Departments (ADs). Recovery of loan with interest is watched by the HODs, ADs and the FD through quarterly progress reports (QPRs) and annual reports (ARs) sent by subordinate offices who maintain basic records of the loanees. In case, where loans are disbursed directly by HODs, the basic records are to be maintained at the Directorate level.

6.3.3 Scope of audit and audit methodology

There are 14 Departments involved in disbursement of loans under 19 major heads of accounts. On the basis of statistical sampling, the records of seven Departments viz. Agriculture, Co-operation, Education, Horticulture, Multi Purpose Projects and Power (MPP & Power), Industry and Urban Development accounting for 80 *per cent* of the total outstanding loans as on 31.03.2010, were test checked alongwith records maintained by the FD. We also test checked the records of subordinate offices[86] of Co-operation and Industry Departments.

6.3.4 Acknowledgement

We acknowledge the co-operation of the Departments selected for test check in providing necessary information and records for audit. An entry conference was held in December 2010 with the Principal Secretary (Finance) and the scope and methodology for conducting the review were discussed. Shortcomings noticed during the review were also discussed and brought to the notice of the head of the concerned office. The exit conference was held in October 2011. The Principal Secretary (Finance) represented the Government. The views of the Government have suitably been incorporated in the relevant paragraphs.

6.3.5 Audit Objectives

We conducted the review with a view to ascertain;

- existence of an adequate system for sanctioning and disbursing of loans;
- existence of an adequate and effective system for realisation of principal and interest on loans;
- adequacy of remedial measures against the defaulters for safeguarding the interest of the Government;
- whether an internal control mechanism was in place and was working effectively for monitoring compliance with the terms and conditions of loans; and

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86 ARCS- Dharamshala, Kullu, Mandi, Palampur and Shimla: Industry- Dharamshala, Hamirpur, Kullu, Mandi, Shimla and Una

- existence of adequate and effective system for realisation of dividends on investments.

6.3.6 Source of information

We found that basic records viz. loan and interest ledgers and Demand, Collection and Balance (DCB) registers had not been maintained at the Directorate level by six Departments[87], out of the seven test checked Departments. Our source of information is therefore based on the Finance Accounts (FA)[88], calculation statement of interest, QPRs, ARs and correspondence exchanged between the FD, concerned department and loanee organisations.

6.3.7 Trend of revenue

The provisions of the H.P Budget Manual (HPBM) lay down that the actuals and revised estimates of previous years should be taken as the best guide in framing the budget estimates (BEs) and continuance of any growth or decline in contrary, properly be assumed in all cases in which proportionate estimate can be usefully employed. The provisions also suggest that special attention should be paid to new sources of revenue of which account has not been taken in previous years. The reasons which led to the adoption of the figures for the BEs should be briefly and clearly explained. The FD is required to receive inputs from the HODs for this purpose as stipulated in para 3.1 of HPBM.

The position of outstanding loans and advances of the Government during 2005-06 to 2009-10 was as under:-

(₹ in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1.	Opening balance	242.46	234.62	236.97	224.85	293.49	
2.	Amount advanced during the year	14.13	25.75	13.94	89.61	69.67	213.10
3.	Amount repaid during the year	21.97	23.40	26.05	20.97	33.84	126.24
4.	Interest received during the year	10.22	11.29	15.70	11.11	11.36	59.68
5.	Closing balance	234.62	236.97	224.85	293.49	329.32	

Source: Finance Accounts of the respective year

The outstanding loans and advances under different heads had increased by over 40.36 *per cent* from ₹ 234.62 crore to ₹ 329.32 crore over the period 2005-06 to 2009-10.

87 Agriculture, Education, Horticulture, Industry, MPP & Power and Urban Development

88 FA of the Government contain details of receipts and disbursements including balances, assets and liabilities as worked out from the balances recorded in the accounts during a year. These are compiled from the vouchers, challans and initial & subsidiary accounts rendered by treasuries, offices and Departments responsible for the keeping of such accounts.

The position of loans disbursed by the test checked Departments during 2005-06 to 2009-10 was as under:

(₹ in crore)

Sr. No.	Name of Department	Loans disbursed					Total	Outstanding as on 31.03.2010
		2005-06	2006-07	2007-08	2008-09	2009-10		
1.	MPP & Power	1.97	---	1.33	75.00	62.34	140.64	200.47
2.	Co-operation	0.81	10.89	0.58	0.06	---	12.34	13.06
3.	Agriculture/ Horticulture	---	0.65	0.68	1.56	0.97	3.86	40.89
4.	Urban Development	---	---	---	2.00	---	2.00	2.58
5.	Industry	---	0.98	0.50	0.20	---	1.68	5.69
6.	Education	---	---	---	---	---	---	0.10
	Total	**2.78**	**12.52**	**3.09**	**78.82**	**63.31**	**160.52**	**262.79**

Source: Finance Accounts of the respective year

6.3.7.1 A comparison of BEs with the actuals of interest realised during 2005-06 to 2009-10 is given below:-

(A) Interest Receipts

(₹ in crore)

Year	BEs	Actual Receipts		Total (Col.3+ Col.4)	Variation Excess (+) Shortfall(-) (Col.2 -Col.5)	Percentage of variation
		Interest on loans	Interest on investment of cash balances			
1	2	3	4			
2005-06	11.58	23.81	25.48	49.29	(+) 37.71	(+)326
2006-07	12.19	61.21	25.97	87.18	(+) 74.99	(+) 615
2007-08	12.77	18.28	48.62	66.90	(+) 54.13	(+) 424
2008-09	63.58	17.52	60.45	77.97	(+) 14.39	(+) 23
2009-10	105.27	13.23	63.70	76.93	(-) 28.34	(-) 27

Source: Budget estimates of the respective year

It may be seen that the variation between BEs and actual during the years 2005-06 to 2009-10 ranged between (-) 27 *per cent* to 615 *per cent.* Thus, there appeared no relevance between BEs and actuals throughout these five years. Actuals of interest were excessively on the higher side during 2005-06 to 2008-09, whereas it showed a sharp decline during 2009-10.

After we pointed this out (June 2010), we were informed (July 2010) that the BEs are being framed in the FD itself on the basis of trend of actuals of the past three years as no information was being received from other Departments in time. The major portion of receipt under this head was interest realised on investment of cash balances which could not be accurately estimated in advance. This reply indicates lack of control of the FD over various Departments of the State. As would be evident from the above table, the preparation of the BEs on the basis of trend of the actuals of the past three years was not followed and the budget estimation was not being done as per the HPBM provisions.

(B) Dividends and Profits

(₹ in crore)

Year	BEs	Actuals	Variation excess (+) shortfall (-)	Percentage
1	2	3	4	5
2005-06	0.65	28.61	(+) 27.96	4,302
2006-07	0.65	1.81	(+) 1.16	178
2007-08	0.85	1.03	(+) 0.18	21
2008-09	1.50	89.58	(+) 88.08	5,872
2009-10	2.65	73.49	(+) 70.84	2,673

Source: BEs and FA of the respective year

It may be seen that the variation between BEs and actuals ranged between 21 *per cent* and 5,872 *per cent* during 2005-06 to 2009-10. The BEs for receipts from dividends and profits during these years gradually increased from ₹ 65 lakh to ₹ 2.65 crore whereas actual receipts varied between ₹ 1.03 crore and ₹ 89.58 crore. Procedures adopted for preparation of BEs and reasons for variation between BEs and actuals were called for from the FD (June 2010).

The FD stated (May and June 2011) that during 2005-06 to 2007-08, the dividend received from Central Government was wrongly credited to receipt head "0801-Power" by the companies and from 2008-09 onward correct head "0050-Dividends and Profits" is being operated which led to huge variation during 2008-09 and 2009-10. The reply is not acceptable in audit as while framing the estimates for 2008-09 and 2009-10 the actual amount of dividend wrongly credited to MH "0801-Power" from 2005-06 to 2007-08 was not taken into account.

Audit findings

System deficiencies

6.3.8 Non-prescribing of procedure for maintenance of loan accounts

6.3.8.1 Absence of provisions

Loans are disbursed to loanees after sanction from the competent authority. The repayment of loan should be effected in instalments which should ordinarily be fixed on a half-yearly or yearly basis.

Our scrutiny of records revealed that no rules or guidelines have been framed to watch repayments of loan/ interests. Administrative instructions for maintenance of loan accounts have also not been issued. Resultantly different Departments were maintaining records on different patterns. Scrutiny of the records maintained by the seven test checked Departments revealed the following deficiencies:-

- Except for the Cooperation Department, loan ledgers were not maintained at the Directorate level by any other Department;

- Entries of principal and interest recovery recorded in the ledger were not attested by the head of the office in six test checked units[89];
- Interest/penal interest due were not calculated/computed upto date by seven test checked units[90];
- Separate DCB registers were not being maintained by any of the test checked units.

After we pointed this out (January and February 2011), the test checked units while admitting the facts stated that there are no instructions to maintain DCB registers and loan ledgers could not be completed due to shortage of staff and assured that interest would henceforth be calculated and depicted in the loan ledgers. As regards maintenance of records at the levels of AD/HOD, we called for information from the FD (June 2010). The FD stated (June 2011) that no such instructions were available.

The Government may consider prescribing instructions for maintaining loan accounts, loan ledgers and DCB registers for monitoring recovery of loan and interest on a uniform pattern.

6.3.8.2 Non-acceptance of outstanding loans and advances

Our enquiries from three Departments (Agriculture, Urban Development & Education) and cross-reference with FA revealed that these Departments were not monitoring accounts for the loans disbursed prior to 1988-89. The outstanding balance as on 01.04.2005 was ₹ 10.64 crore as shown in the table below:

(₹ in lakh)

Sl. No.	Major Head	Loan amount	Accepted by the department	Period of disbursement (prior to)
1.	6435-Other Agricultural Programme (Marketing facilities)	433.89	Nil	1987-88
Director Agriculture intimated (July 2010) that no loan had been disbursed under this head or was outstanding under this head. As per AG (A&E) office these loans were disbursed prior to 1987-88, thereafter, no recovery has been received.				
2.	6217-Loans for Urban Development	58.42	Nil	1988-89
The Director Urban Development intimated (July 2010) that loan does not pertain to his office. Whereas as per AG (A&E) office ₹ 108.07 lakh disbursed prior to 1988-89 and part recovery was made up to 2001-02 by the Director Urban Development.				
3.	6401-Loans for Crop Husbandry, 800- Other loans (ii) Loans to Himachal Pradesh Krishi Vishvavidyalaya	562.37	183.27	1985-86
The Director Agriculture intimated (June 2010) that a sum of ₹ 183.27 lakh only was sanctioned during 1985-86.				
4.	6202-Loans for Education, Sports and Culture	9.74	Nil	1988-89
Director Elementary Education intimated (October 2010) that no loan was drawn by that office.				
Total		**1,064.42**	**183.27**	

89 Assistant Registrar Co-operative Societies-Kullu, Mandi and Shimla :: Industry-Hamirpur, Kullu and Shimla

90 Industry-Dharamshala, Hamirpur, Mandi, Kullu, Shimla, Una, ARCS-Kullu

From the above it is clear that out of outstanding loan of ₹ 10.64 crore, ₹ 1.83 crore has been accepted by the loan disbursing Departments. Due to non-acceptance of the loans amounting to ₹ 8.81 crore the Government could neither realise nor raise the demand for recovery of interest as well as principal.

6.3.8.3 Non-prescribing the terms and conditions of loan

The sanction for payment of loans issued by the Government should contain the terms and conditions for repayment of loan such as the number of instalments for repayment of principal and interest, date and year of commencement of the first instalment and rate of interest/penal interest chargeable. Further, according to Rule 10.5 (i) of HPFR, 1971, interest should be charged at the rate provided by Government for any particular loan or for the class of loans concerned.

On scrutiny of Schedule-33 of the balance sheet of the Himachal Pradesh State Electricity Board (HPSEB) and concerned correspondence files, we found that a loan of ₹ 5 crore was sanctioned in favour of the Principal Secretary (MPP & Power) for further disbursement to that organisation. Our scrutiny of principal sanctions further revealed that the terms and conditions of the loan had not been prescribed. Similarly, loans of ₹ 1.13 crore were disbursed by the Horticulture Department to Agro Industry Packaging India Ltd. (AIPIL), without prescribing terms and conditions. The details are given below:-

(₹ in crore)

Sr. No.	Head of Account	Name of Department	Name of loanee	Amount of loan	Date of drawl	Purpose of loan
1.	6801	MPP & Power Department	HPSEB	5.00	16.07.2008 and 11.02.2009	Rajiv Gandhi Vidhyut Yojna Scheme
2.	6401	Horticulture	AIPIL	1.13	14.01.2009, 27.07.2009 and 30.12.2009	For redemption of liabilities
Total				**6.13**		

In the absence of terms and conditions for repayment of loan, monitoring and recovery of loan and interest was not possible. After this was pointed out in audit (November 2010), the HPSEB admitted this fact and stated that the matter had been taken up with the concerned quarters (December 2010) to prescribe terms and conditions. This was also pointed out to MPP & Power Department (May 2011) for which no reply was furnished (December 2011). The Horticulture Department while admitting the facts (August 2011) supplied the copies of sanctions instead of furnishing concrete reply.

6.3.9 Internal Control Mechanism

6.3.9.1 Absence of reporting system

Maintenance of records on a uniform pattern or periodical returns to watch recovery of loans and interest has not been prescribed by the FD. However,

three Departments[91] had been preparing QPRs and ARs but these were not being scrutinised at higher levels paving way for discrepancies as discussed in the succeeding paragraphs. This reflects absence of departmental checks over loans disbursed by them.

6.3.9.2 Absence of monitoring system

Under the provisions of HPFR Vol.-I, as soon as any advance become irrecoverable, the Administrative Department is required to take necessary steps to write-off the dues from the accounts with the approval of competent authority.

The Government considering the proposal of the Department (September 2007) accorded sanction (May 2010) to write off principal loan of ₹ 1.76 crore outstanding against the Agriculture Department disbursed by it to agriculturists.

We noticed that as per the FA, principal of ₹ 1.20 crore only was outstanding as on March 2010. Resultantly, ₹ 56 lakh was written off in excess of the actual outstanding. This shows absence of monitoring and control mechanism at the Directorate level.

6.3.9.3 Incorrect opening and closing balances of principal and interest

We test checked the QPRs and ARs and found that opening balance of principal and interest were taken excess by ₹ 4.47 lakh and ₹ 18.12 lakh respectively in the Industry Department, whereas closing balance of interest was taken excess by ₹ 6.69 lakh in Co-operation Department during 2004-05 to 2009-10, as shown in **Annexure-X** and **Annexure-XI**. The loans and arrears of interest were thus over stated to that extent.

After we pointed this out (July 2010), the Co-operation Department stated (September 2010) that difference in closing balances of overdue interest is due to advance/excess payment made by some institutions which shall not affect the overdue position of interest.

Compliance Deficiencies

6.3.10 Non-assessment of interest

We test checked the records of Director Agriculture and found that in July 1997 ₹ 50 lakh was advanced to H.P. Agro Industries Corporation under the Potato Support Price Scheme. The Corporation did not enter the market for potato procurement and the advance remained unutilised.

A mention was made of this in para 3.7 (i) of Audit Report No. 2 of 1999 (Civil). During meeting of the PAC the Government accepted that principal and interest would be demanded from the corporation. Instead of this, the Government converted the principal amount of ₹ 50 lakh into equity investment as late as in June 2008 but no action was taken either to recover the interest of

[91] Agriculture, Co-operation and Industry

₹ 66 lakh[92] that accrued from July 1997 to June 2008 or to convert the same into equity. As no decision was taken in respect of the interest, the recommendations of the PAC remained un-attended.

6.3.11 Under-assessment of penal interest

On the basis of the sanctions conveyed by the Government, loans in favour of various Cooperative Societies for activities like construction of godown, work shed and renovation of showroom and purchase of vehicle are disbursed by the RCS through ARCS of concerned districts who monitor the institution and watch recoveries of principal and interest as per approved recovery schedules and submit consolidated statement annually to the RCS. In case of default in repayment of loan, penal interest at prescribed rate is to be assessed and recovered.

We scrutinised the loan ledgers maintained by three ARCS[93] and noticed that out of 135 cases, in 19 cases, loans aggregating to ₹ 31.41 lakh were disbursed between 1979-80 and 2006-07 with interest/penal interest rates ranging between 8.5 *per cent* and 17.5 *per cent*. We noticed that repayment of loans was not made as per prescribed recovery schedule.

Out of total loan of ₹ 31.41 lakh, ₹ 22.29 lakh was recoverable between 1980-81 and 2009-10. Against this, principal of ₹ 7.37 lakh was recovered and a sum of ₹ 14.92 lakh remained un-recovered as on 31.03.2010. The delay in recovery ranged between two and 30 years. Penal interest of ₹ 36.04 lakh was due on delayed payments of overdue principal as per approved recovery schedule, against which the department assessed ₹ 16.67 lakh. This resulted in underassessment of penal interest of ₹ 19.37 lakh.

After we pointed this out (February 2011), the concerned ARCS stated (February 2011) that underassessment of penal interest would be reviewed and results thereof intimated. Further reply is awaited (December 2011).

6.3.12 Non-payment of interest on overdue principal/interest instalments

Under the Accelerated Power Development Reforms Programme (APDRP) the Government of India provided loans to the State Government to be disbursed to the HPSEB through MPP & Power Department. Maturity period of these loans was 20 years with equal instalments of principal and interest and carrying interest between 11.5 *per cent* and 12 *per cent* per annum. In case of default in repayment of principal and interest, interest at the rate of 14.20 and 14.75 *per cent* was chargeable on all such overdue instalments.

On the basis of the information furnished by HPSEB and on scrutiny of their records, we noticed that interest of ₹ 7.69 crore was due on loan of ₹ 11.13 crore between October 2002 and October 2010. Against this, ₹ 7.29 crore was paid by the HPSEB which resulted

92 Calculated at the prevailing rate of 12 *per cent*
93 ARCS-Kullu, Mandi and Shimla

in short payment of interest of ₹ 40.53 lakh. Loans of ₹ 15.62 crore were repaid by the HPSEB between March 2005 and October 2010, out of which ₹ 6.81 crore were repaid after delays ranging between 30 and 760 days. Although there was delay in repayment of loans, interest of ₹ 80.34 lakh on higher rates was not demanded/paid. Thus, interest of ₹ 1.21 crore was still recoverable from HPSEB.

We brought the above facts to the notice of the Department as well as the loanee (May 2011 and December 2010 respectively) for which reply was awaited (December 2011).

6.3.13 Non-reconciliation with Statement of loans and advances

6.3.13.1 Variation between FA figures and departmental figures

Finance Accounts of the Government are compiled from the vouchers, challans and initial & subsidiary accounts rendered by treasuries, offices and Departments. As such, these reflect the financial position of the State. Under the provisions of HPFR Vol.-I, the drawing and disbursing officers are required to prepare a monthly statement of receipts & expenditure and are required to submit the same to concerned treasury officer by the seventh day of the succeeding month. The treasury officer thereafter is required to reconcile the figures with the accounts and return the same to the DDO by 15th day of the succeeding month to which transactions are related.

We cross verified the records and found that during the years 2005-06 to 2009-10, the figures relating to recovery of principal and interest appearing in the FA were at variance with the figures of recovery shown in the departmental records/ returns of three departments as shown in the following table:-

(₹ in lakh)

Sr. No.	Name of department	Period	Recovery position of principal			Recovery position of interest		
			As per FA	As per office records	Variation (+) Excess (-) Short	As per FA	As per office records	Variation (+) Excess (-) Short
1.	**Co-operation**	04/05 to 03/10	1938.62	1972.69	(+)34.07	1054.39	1053.55	(-)0.84
Recovery of principal was on the higher side while recovery of interest was on lower side as per office records. **(Annexure-XII)**								
2.	**MPP& Power (HPSEB)**	04/07 to 03/10	Nil	Nil	Nil	961.48	950.99	(-)10.49
As per office records, recovery of interest was on the lower side. **(Annexure-XIII)**								
3.	**Industry**	04/05 to 03/10	56.11	55.20	(-)0.91	81.52	66.54	(-)14.98
Recovery of principal and interest was on the lower side as per office records.**(Annexure-XIV)**								

Thus, it is clear that reconciliation of recovery of loans in respect of departmental figures with those appearing in the FA were not being carried out by these Departments.

After we pointed this out in audit (July 2010 and November 2010), the Director Industries (September 2010) stated that this variation was not in the knowledge of the Department. The Registrar, Co-operative Societies (RCS), accepted the observation and stated (September 2010) that in future reconciliation with the FA would also be ensured. HPSEB stated that the figures were reconciled with the AG's office (December 2010) but could not justify the difference. The MPP & Power Department (May 2011) did not furnish any reply (December 2011). The replies of the Departments were not acceptable as the variation in figures could have been sorted out, had the provisions of the financial rules been observed.

The Departments may ensure reconciliation with the figures appearing in the Finance Accounts as provided in the HPFR Vol.-I.

6.3.13.2 Variation in outstanding loans

We test checked the ARs sent to the FD by the RCS and annual accounts (Schedule-33) of HPSEB and found that there was variation of ₹ 4.80 crore and ₹ 59.31 crore respectively in outstanding loans with those worked out by the Department as shown below:-

(₹ in lakh)

Sr. No.	Name of department	Outstanding as on	Outstanding as per		Variation (+)Excess (-)Short
			FA	Departmental Records	
1.	Co-operation	31.03.2010	1436.72	956.70	(-) 480.02
2.	MPP & Power (HPSEB)	01.04.2005	7801.30	1870.58	(-) 5930.72

This indicates that Departments are not reconciling their accounts with the FA.

After we pointed out (July 2010), the RCS intimated that during 2003-04, ₹ 3.18 crore was converted into share capital and during 2004-05, loan of ₹ 34.44 lakh was adjusted from credit stabilisation fund but adjustment of above figures had not been carried out in the FA. The variation of balance amount of ₹ 1.28 crore remained un-explained (December 2011).

We pointed out this to the MPP & Power Department (May 2011) for which no reply was furnished (December 2011).

6.3.13.3 Irregular conversion of interest and loan into equity and share capital

Under the rules, direct utilisation of departmental receipts towards expenditure is strictly prohibited.

From the correspondence exchanged between Departments and the loanees, it was revealed that principal of ₹ 39.96 crore and interest of ₹52.05 crore pertaining to four Departments was converted into equity/share capital of the concerned loanee between February 2004 and June 2008 without crediting the same to receipt

head as detailed in **Annexure-XV.**

Our scrutiny revealed that out of principal amount of ₹ 39.96 crore converted into equity/share capital, ₹ 24.81 crore was still being shown as loan in the FA. The balance amount of ₹ 15.15 crore was being reflected as investment and as loan also.

Besides, loan amount of ₹ 57.07 crore (Principal ₹ 22.13 crore and interest ₹ 34.94 crore) as on 31.03.2008 was converted into share capital of AIPIL in June 2008. In October 2009, the same amount was approved by the Government to be treated as interest free loan.

After this was pointed out (October 2010) for giving two treatments to the same amount, the Director Horticulture admitted the facts and stated that related information is being collected from the corporation concerned (November 2010). Our scrutiny revealed that neither intimation/sanction for conversion of loans into equity/share capital was received in AG office, nor any adjustment in the accounts was intimated by the Departments to reduce the loan amount and increase the investments.

6.3.14 Late deposit of receipt into treasury

Rule 2.4 of HPFR provides that at the close of the day while signing the cash book, the head of the office should see that departmental receipts collected during the day are credited into the treasury on the same day or on the morning of the next day and that there is corresponding entry on the payment side of the cash book. The money collected in recovery camps can be deposited at the nearest treasury/sub-treasury.

We test checked the records of General Manager, District Industry Centre (GM DIC), Dharamshala and found that ₹ 1.54 lakh received on account of interest/repayment of loan between April 2005 and March 2006 in 71 cases was deposited late into the treasury with delays ranging between three and 71 days.

After we pointed this out (January 2011), the GM, DIC stated that delay in deposit had occurred due to the reasons that camps for recovery are organised in the district in a continuous manner and the money so collected is deposited into the treasury on return to Headquarters. However, it would be ensured in future that the amount collected is deposited within the prescribed limit. The reply of the Department is not tenable as the money so collected was required to be deposited at the nearest treasury/sub-treasury as per provisions of the rules.

6.3.15 Repayment of interest free loan not routed through treasury

A loan of ₹ 12.13 crore was recoverable by the Horticulture Department against Horticulture Produce Marketing Corporation (HPMC) as on 01.04.2005. As per information supplied by the loanee in June 2008, ₹ 2.13 crore was shown as repaid during 2007-08 leaving a balance of ₹ 10 crore. Relying on this information, the Department also reduced the loan liability of HPMC to ₹ 10 crore. The annual FA, year after year, was reflecting the amount of ₹ 12.13

crore as outstanding loan which shows that no repayment of ₹ 2.13 crore was ever made.

The Department stated (November 2010) that information relating to repayment of loan is being collected from the HPMC which indicates poor monitoring of recovery of loans.

6.3.16 Non-reconciliation with treasury

Rule 2.2(v) of the HPFR provides that at the end of the month, the drawing and disbursing officers are required to prepare a statement of amounts credited into the treasury both by the departmental officers and others and get it verified by the Treasury Officer concerned and difference noticed, if any, are to be got reconciled.

We observed that the statements of receipts had not been prepared and reconciliation not carried out in respect of interest receipts and repayment of loans credited into the treasury between the period 2005-06 and 2009-10 by eight field units[94].

After we pointed this out (January and February 2011), the departmental officers stated that the needful would be done.

6.3.17 Conclusion

Basic records i.e. loan ledgers and DCB registers had not been prescribed and as such were not maintained at the directorate level. Outstanding loans appearing in FA were not reconciled by the Departments. The direct conversion of loans into equity/share capital without required accounting adjustments had led to double appearance of the same amount as investment as well as outstanding loans in Co-operation, Horticulture and Industry Departments. The direct investment of accrued interest, without crediting the same first to revenue account, resulted in understatement of revenue in Agriculture, Co-operation, Horticulture and Industry Departments.

6.3.18 Recommendations

The State Government may consider:

- **prescribing instructions for maintaining loan account, loan ledgers and DCB registers for monitoring recovery of loan and interest on a uniform pattern;**
- **setting up an effective IA system to monitor the assessment and correctness of interest accrued, proper accounting procedure and repayment of loans; and**
- **reconciliation with the figures appearing in the Finance Accounts.**

94 ARCS Dharamshala, Kullu, Palampur and GM DIC Hamirpur, Kullu, Mandi, Shimla and Una

6.4 Other Audit observations

Our scrutiny of the records in the offices of Power, Revenue and Stamp duty and Registration Departments revealed cases of non-recovery, short recovery, non-deposit and incorrect determination of market value etc., as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

B. Multi Purpose Projects and Power Department

6.5 Non-recovery of electricity duty

According to the Himachal Pradesh Electricity (Duty) Act, 1975, and the Rules made there under, electricity duty (ED) was leviable on energy supplied by the Himachal Pradesh State Electricity Board (Board) to consumers. Under the rules *ibid*, the duty collected by the Board in monthly bills for the energy supplied shall be deposited into the Government account half yearly i.e. in April and October every year. There is no provision for levy of interest/penalty for non/belated payment of electricity duty into the Government account.

We collected the information from the office of the Chief Electrical Inspector (CEI), and noticed (April 2011) that ED of ₹ 269.19 crore realised by the Board up to 31.03.2010, was payable in April 2010. Out of this, ₹ 140 crore only was paid upto April 2010 and ₹ 62 crore was paid between August 2010 and September 2010. Apart from the balance amount of ₹ 67.19 crore, ED of ₹ 90.61 crore for the period April 2010 to September 2010 was also recoverable from the Board by October 2010. Out of this ₹ 142 crore were paid by the Board in eight instalments from October 2010 to April 2011. Consequently a balance amount of ₹ 15.80 crore on account of the ED was yet to be recovered. Thus, in absence of the provision for levy of interest/deterrent penalty on delayed/non-payments of ED, the Board was making payments of Government dues at its own will and not on due dates. In case the Board had made payments on due dates, the Government could have saved the minimum interest liability of ₹ 8.83 crore on loans raised by it.

We reported the matter to the Department and to the Government in July 2010. Further report on recovery of the remaining ED amounting to ₹ 15.80 crore was awaited (December 2011).

The Government may consider incorporating a provision of interest/ penalty for non/belated payment of electricity duty into the Government account.

C. Industries Department

6.6 Non-realisation of royalty on rock salt

Mining Officer Mandi

Royalty is leviable as soon as the mineral is removed from the leased area. Further, as per the GOI notification dated April 2003, royalty on rock salt shall be computed on the basis of average value as published by Indian Bureau of Mines in the "Monthly Statistics of Mineral Production". The State Government shall add 20 *per cent* to the benchmark[95] value for the purpose of levy of royalty payable at the rate of 10 *per cent* of the value so arrived at.

During scrutiny of the returns filed by a lessee[96] in the above office we noticed (July 2010) that the lessee had extracted 1,836 metric tonnes of rock salt during the year 2009-10. The lessee was liable to pay a royalty of ₹ 5.95 lakh, which was neither paid by it nor was it demanded by the Department resulting in non-realisation of Government revenue to that extent. Though the lessee had filed the returns, the mistakes were not detected by the MO.

After it was pointed out in audit, the Government intimated in August 2011 that the company/lessee had stopped mining activities from 15 January 2011 and has been directed to deposit the royalty. No further report on realisation has yet been received (December 2011).

6.7 Short recovery of royalty due to application of incorrect rates

Mining Officer (MO) Kullu

The Himachal Pradesh Minor Minerals (Concession) Revised Rules, 1971, provide that the lessee shall pay the royalty in advance for the materials to be removed from the leased area. Royalty for sand, stone etc. is to be charged at the rate of ₹ 20 per tonne in terms of notification dated 8.10.2007, issued by the Department of Industries. In case of default in payment of royalty, interest at the rate of 24 *per cent* per annum is also leviable.

6.7.1 We test checked between June and July 2010 the register of royalty and returns filed in the office of the MO Kullu and noticed that a lessee[97] engaged in construction of Parbati Hydro Electric Project stage-III in the district had entrusted civil and hydro-mechanical works of the project to 12 sub-contractors. Our scrutiny further revealed that 0.242 lakh tonnes of sand, stone and aggregate[98] was supplied by these sub-contractors to the lessee during April and May 2008. The lessee deposited ₹ 2.11 lakh as royalty deducted from the bills of these sub-contractors at the rate of ₹ 6 (sand) and

95 Month wise average value of rock salt fixed by Indian Bureau of Mines
96 M/s Hindustan Salts Ltd., Mandi
97 M/s NHPC Ltd, Nagwain, Mandi
98 Crushed stone

₹ 10 (stone and aggregate) per tonne instead of ₹ 20 per tonne for all. Application of incorrect rates of royalty was also not detected by the Department, which resulted in short recovery of royalty of ₹ 3.88 lakh including interest of ₹ 1.14 lakh.

6.7.2 We noticed that royalty of ₹ 16.05 lakh was required to be recovered from three other lessees[99] on account of 0.802 lakh tonnes crushing stone extracted by them from the leased area during 2008-09 and 2009-10. Out of this, the Department had recovered only ₹ 12.25 lakh, which resulted in short recovery of royalty of ₹ 3.80 lakh. Besides, interest of ₹ 1.25 lakh at the prescribed rates was also leviable.

After we pointed this out, the Department intimated in August 2011 that ₹ 3.34 lakh (₹ 1.52 lakh in respect of M/s NHPC Ltd. Nagwain, Mandi and ₹ 1.82 lakh in respect of M/s Jonson and M/s Bhawani Stone Crusher) has been recovered and notices have been issued to the remaining lessees to deposit the outstanding amount of royalty.

We reported the matter to the Government in July 2010; we have not received their reply (December 2011).

6.8 Non-recovery of dead rent

Mining Officer (MO) Kullu

As per the Himachal Pradesh Minor Minerals (Concession) Revised Rules 1971, dead rent of the leased area or royalty due from the mineral extracted from the leased area, whichever is higher, shall be payable by a lessee.

We test checked between June and July 2010 the royalty registers and returns filed by the lessees in MO Kullu and noticed that six lessees[100] with leased area of 17.667 hectares did not extract any produce during 2008-09 and 2009-10. Therefore, these lessees were liable to pay dead rent of ₹ 3.38 lakh. The Department did not apply the provisions of the rules, which resulted in non-recovery of dead rent to that extent.

After we pointed this out, the Government intimated in August 2011 that recovery of ₹ 2.97 lakh has been made from four lessees and the notices have been issued to the remaining lessees to deposit the amount of dead rent. Further report on recovery has not been received (December 2011).

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99 M/s Jonson stone crusher, M/s Bhawani stone crusher and M/s Shobha hydro stone crusher

100 Shri Nathu Ram, M/s SJVN Ltd., Rampur, M/s NHPC, Parbati project, Sainj, M/s PHEP, stage-III, Sh. Thakur Dass, Maraur and Sh. Kulddep Chand, Niyahi

D. Public Works and Irrigation & Public Health Departments

6.9 Non-credit of lapsed deposits to the Government revenue account

6.9.1 11 Public Works Divisions (B&R)

The Himachal Pradesh Financial Rules, 1971, stipulate that all balances remained unclaimed for more than three complete account years shall, at the close of March in each year, be credited to the Government account by means of transfer entries. The Rules also forbid direct utilisation of receipts towards expenditure.

We test checked security/deposits registers of 11 B&R divisions[101] between January 2011 and March 2011 and noticed that an amount of ₹ 3.23 crore[102] for 3,500 items deducted from the contractors bills on account of deposits during 1985-86 to 2007-08 was not credited to the Government account as required. Thus, ₹ 3.23 crore remained out of the revenue account, which also resulted in understatement of revenue to that extent.

After we pointed this out, the Bilaspur B&R division intimated in August 2011 that an amount of ₹ 1.43 lakh in respect of 49 items has been credited to the Government account. Out of the remaining amount of ₹ 25.29 lakh, ₹ 16.32 lakh related to Court/Arbitration cases/work in progress and efforts for credit the balance amount into the Government account were being made. Solan B&R division intimated (September 2011) that an amount of ₹ 6.05 lakh in respect of 64 items has been credited to the Government account. The replies of the remaining divisions have not been received (December 2011).

We reported the matter to the Government in January and May 2011; their reply has not been received (December 2011).

Eight Irrigation-cum-Public Health (IPH) divisions

6.9.2 We test checked the security/deposits registers of eight IPH divisions[103] between December 2010 and March 2011 and noticed that an amount of ₹ 1.51 crore[104] for 1,968 items deducted from the bills of the contractors on account of deposits during 1993-94 to 2007-08 were not credited to the revenue account as required.

After we pointed this out, IPH division, Paonta Sahib intimated in April 2011, that ₹ 3.34 lakh has been credited to the Government account and efforts were being made to credit the balance amount. The IPH Division, Hamirpur stated that for want of LOC the amount of ₹ 16.17 lakh could not be credited to revenue account. This indicates that security deposits deducted from the bills of contractors had been utilised towards expenditure in contravention of financial

101 Baijnath, Bangana, Bilaspur, Dehra, Joginernagar, Kasauli, Kullu-I, Kullu-II, Padhar, Palampur and Sarkaghat

102 Upto 2004-05: 2,232 items: ₹ 135.81 lakh; 2005-06: 443 items: ₹ 38.43 lakh; 2006-07: 549 items: ₹ 49.98 lakh and 2007-08: 276 items ₹ 98.41 lakh

103 Anni, Chamba, Hamirpur, Paonta Sahib, Rohroo, Sarkaghat, Solan and Una

104 Upto 2004-05 : 883 items: ₹ 73.12 lakh; 2005-06: 405 items: ₹ 24.16 lakh; 2006-07: 655 items: ₹ 52.35 lakh and 2007-08: 15 items: ₹ 1.15 lakh

rules. The replies of the remaining divisions have not been received (December 2011).

We reported the matter to the Government in January and May 2011; further progress of recovery and reply has not been received (December 2011).

6.10 Non-recovery of water/*abiana* charges

6.10.1 Water Charges

Under section 5 of the Himachal Pradesh Water Supply Act, 1968, the water rates shall be levied on the basis of flat rate or metered connections and at the rates prescribed from time to time. The rates levied shall, if not paid when due, be recovered as arrear of land revenue (ALR).

We test checked the arrears registers of five IPH divisions between January 2011 and March 2011 and noticed that water charges amounting to ₹ 36.48 lakh[105] for the period 2008-09 and 2009-10 was not paid by the concerned individuals. The Department did not take any action to recover the outstanding amount of water charges as ALR. This resulted in non-recovery of ₹ 36.48 lakh.

After we pointed out the cases, IPH division, Paonta Sahib intimated (April 2011) that notices have been issued to the defaulters to deposit the outstanding amount. Further report of recovery has not been received (December 2011).

6.10.2 *Abiana* charges[106]

Under section 62 of the Himachal Pradesh Minor Canals Act, 1976, all the charges of *abiana* due, if not paid, were recoverable as if the same were arrears of land revenue.

We further noticed from the arrears register of two IPH divisions in January and March 2011 that *abiana* charges amounting to ₹ 8.17 lakh[107] for 2009-10 were not recovered by the Department from the individuals. This resulted in non-recovery of ₹ 8.17 lakh. Action to recover the dues as ALR had not been initiated by the Department.

We reported the matter to the Department and the Government between February and May 2011; their replies have not been received (December 2011).

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105 Barsar: ₹ 2.34 lakh, Hamirpur: ₹ 1.69 lakh, Kasumpti: ₹ 16.41 lakh, Paonta Sahib: ₹ 14.14 lakh and Una-II: ₹ 1.90 lakh

106 Means Canal water charges levied for water supplied for irrigation

107 Kasumpti: ₹ 15,000 and Paonta Sahib: ₹ 8.02 lakh

E. Revenue Department

6.11.1 Incorrect preparation of valuation report by *Patwaries*

As per clarification issued by the Inspector General of Registration in July 1997, June 1998 and October 2004, market value of land is to be worked out on the basis of mutations done during the preceding 12 months. The registering officer is also required to verify the consideration shown in the sale deeds with valuation reports prepared by the concerned *patwari*. Under the Indian Stamps Act, stamp duty and registration fee on documents presented for registration is to be levied on consideration amount or market value whichever is higher. Under the Himachal Pradesh Land Record Manual 1992 (Appendix-XXI) the *patwaris* are responsible for preparation of valuation report of the land.

We test checked the documents of sale deeds of 12 SRs[108] between May 2010 and March 2011 and noticed that the *patwaris,* while preparing the valuation report, considered the amount of consideration set forth in 93 documents, instead of market value of the land recorded on the face of the documents. These 93 documents for ₹ 3.67 crore were registered during 2008-09 whereas the actual market value of these documents was ₹ 7.28 crore. The registering officers, while registering these documents did not point out the mistake. This resulted in short realisation of stamp duty of ₹ 17.90 lakh and registration fee of ₹ 3.71 lakh as per the details in **Annexure-XVI.**

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

6.11.2 Incorrect determination of market value of property

We noticed between June 2010 and March 2011 from the documents of sale deeds of six SRs[109] that consideration of properties set forth in 37 documents registered during 2008-09 was much below the market value shown in the valuation reports prepared by the concerned *patwaris* of the localities. Against the market value of ₹ 3.29 crore, the value set forth in the deeds was ₹ 1.54 crore. The registering officers while registering these documents did not correlate the consideration with that of the valuation reports. This resulted in short realisation of stamp duty of ₹ 8.78 lakh and registration fee of ₹ 1.74 lakh as per the details in **Annexure-XVII.**

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

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108 Baldwara, Barsar, Chirgaon, Indora, Kangra, Morang, Nurpur, Palampur, Pooh, Rajgarh, Rampur, and Sunni

109 Banjar, Jawalamukhi, Nerwa, Rajgarh, Sundernagar, and Sunni

6.12 Short deposit/retention of Government money

Every officer receiving money on behalf of Government should maintain a cash book in the prescribed form and close it daily after it is completely checked. All monetary transactions should be entered in the cash book as soon as they occur and attested by the head of the office or the officer authorised in this behalf, in token of check. Before attesting the cash book, he should satisfy himself that the amount has been actually credited into the treasury or the bank. Under the HP Financial Rules, 1971, every Government servant is personally responsible for the money which passes through his hands and for the prompt record of receipts and payments in the relevant account as well as for the correctness of the account in every respect. It further stipulates that all Departmental receipts collected during the day should be credited into the treasury on the same day or latest by the morning of the next working day.

6.12.1 We noticed between November 2010 and March 2011 from the Cash Books and receipts books of SRs Baldwara and Rajgarh that an amount of ₹ 2.48 lakh was collected as registration and miscellaneous fee[110] between December 2008 and May 2009. We cross checked the receipt book with the cash book/treasury and found that ₹ 1.30 lakh only was deposited in the treasury and the remaining amount of ₹ 1.18 lakh was not deposited. In SR Baldwara our scrutiny revealed that entries in the cash book were neither attested by the head of the office nor by any other officer authorised in this behalf. This resulted in short deposit of Government money of ₹ 1.18 lakh.

After we pointed this out, the SR Baldwara, while admitting the lapse, stated in November 2010 that an amount of ₹ 1.16 lakh had been recovered from the concerned official. The SR Rajgarh stated that the matter was under examination.

We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).

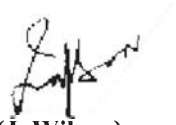
6.12.2 We noticed from the Cash Books and receipts books of 16 SRs[111] that an amount of ₹ 31.87 lakh realised as registration fee and miscellaneous fee from October 2007 to December 2009, was not deposited in the treasuries within the prescribed period. The delay in deposit of Government money ranged between two and 532 days. Non-maintenance of Cash Book and delay in deposit of Government receipts was a violation of the Financial Rules, paving way for undue retention and temporary misappropriation of Government money.

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110 Pasting fee

111 Baldwara, Balichowki, Bharmour, Bharwain, Bijhari, , Chirgaon, Harchakian, Indora, Jaisinghpur, Kasouli, Nahan, Rajgarh, Sainj, Shahpur, Sunni, and Theog

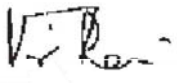
We reported the matter to the Department and the Government in July 2011; their replies have not been received (December 2011).



Shimla
The

(J. Wilson)
Accountant General (Audit)
Himachal Pradesh

Countersigned



New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India

Annexure –I

(Reference: Para-1.4) Audit planning

Sr. No.	Principal head	Units audited
1.	Sales tax	11
2.	Motor Vehicle tax	55
3.	Stamp & Registration Fee	72
4.	Passengers and Goods Tax	09
5.	State Excise Duty	36
6.	Forest	28
7.	Mining	08
8.	Entertainment Duty	Nil
9.	Luxury Tax	03
10	MP Barrier	10
11.	Non-tax Receipts	49
	Total	**281**

Annexure –II

(Reference: Para-2.8.13) Invalid and defective 'C' forms

(₹ in crore)

Name of the Unit/ AETC	Period of Assessment	Assessed between	No. of dealer s	No. of invalid defective form 'C'	Nature of irregularity	Tax effect including interest
AETC Sirmour, Mandi, BBN, Solan, Kangra and ETO, Kinnaur	2005-06 to 2007-08	January 2008 and April 2010	19	112	Concessional rate of tax was allowed on interstate sale of ₹ 21.77 crore against 'C' forms. Scrutiny revealed that forms were not original but duplicate portion of the 'C' forms.	1.18 0.73
AETC Sirmour	2006-07	May 2009 and November 2009	2	22	On interstate sale of ₹ 6.58 crore, concessional rate of tax was allowed on photocopies of forms 'C'.	0.59 0.37
AETC Sirmour, BBN and Una	2006-07 to 2007-08	December 2009 and March 2010	3	9	Concessional rate of tax was allowed on interstate sale of ₹ 2.61 crore against form 'C'. Scrutiny revealed that the forms were defective as name and registration number of the purchasing/selling dealer, invoice number, date etc. were not mentioned therein.	0.29 0.14
AETC BBN	2006-07	July 2010	1	3	Concessional rate of tax was allowed on interstate sale of ₹ 87 lakh against form 'C'. Scrutiny revealed that validity period of 'C' forms was between January 2007 and March 2007 whereas these were issued in October 2007 after the validity period.	0.02 0.02

AETC Sirmour, Solan and Una	2004-05 to 2007-08	May 2007 and July 2010	6	9	On interstate sale of ₹ 1.34 crore concessional rate of tax was allowed against form 'C'. Scrutiny revealed that transactions mentioned in these forms did not pertain to the relevant assessment year of the dealers.	0.14 0.08
AETC BBN, Sirmour Mandi, Solan and Una	2004-05 to 2008-09	December 2007 and July 2010	22	624	Concessional rate of tax was allowed on interstate sale of ₹ 117.75 crore against 'C' forms. Scrutiny revealed that these forms were not issued to the address of selling dealers of HP from where the sale was effected.	5.26 3.32
		Total	**53**	**779**		**12.14**

Annexure-III

(Reference: Para-2.12) Incorrect deduction of cost of material

(₹ in lakh)

District	No. of contractors	Year/Date of assessment	Value of material supplied/ deduction allowed	Tax leviable at 4/8/12.5 *per cent*	Interest leviable	Total tax effect
Hamirpur	3	2004-05 to 2008-09 Between June 2009 and March 2010	110.36	9.98	5.56	15.54
Mandi	1	2005-06 to 2007-08 April 2009	109.64	4.38	2.76	7.14
Sirmour	1	2006-07 to 2007-08 July 2009	6.95	0.87	0.50	1.37
Shimla	6	2005-06 to 2008-09 Between June 2009 and January 2010	466.65	23.31	10.23	33.54
Una	5	2003-04 to 2008-09 Between April 2009 and October 2009	153.71	6.15	3.76	9.91
Total	**16**	**-**	**847.31**	**44.69**	**22.81**	**67.50**

Annexure – IV

(Reference: Para - 4.6.8.2) Details of users which do not exist in User Master Table

Name of RTO	Table name	No. of invalid users	No. of entries by invalid users	Total entries in the Owner Table
RTO Mandi	Owner	1	927	7854
RLA Banjar	Owner	1	80	2355
RLA Hamirpur	Owner	6	9245	22135
RLA Jawali	Owner	3	5727	15533
RLA Kandaghat	Owner	1	5	2886
RLA Kangra	Owner	8	9373	12066
RLA Karsog	Owner	2	26	3144
RLA Kullu	Owner	5	9678	24029
RLA Palampur	Owner	17	15103	30586
RLA Shima (Urban)	Owner	1	60	22253
RLA Sunder Nagar	Owner	2	33	16322
RLA Una	Owner	2	20057	44250
Total		**49**	**70314**	**203413**

Annexure – V

(Reference: Para - 4.6.9.1) Detail of blank engine number and duplicate engine/chassis numbers

Name of RTO	Total records	Blank Engine No.	No. of Duplicate Engine No.[112]	Blank/ invalid Chassis No.	No. of duplicate Chassis No.
RTO Mandi	7854	20	15(30)	--	--
RLA Hamirpur	22135	11	51(102)	--	--
RLA Jawali	15533	0	24(48)	--	--
RLA Kandaghat	2886	1	7(14)	--	--
RLA Kangra	22412	17	36(72)	--	--
RLA Karsog	3144	4	3(6)	--	--
RLA Kullu	24029	51	162(328)	--	--
RLA Palampur	30586	67	50(100)	--	--
RLA Shima (Urban)	22253	45	169(358)	--	122(247)
RLA Sunder Nagar	16322	5	37(76)	--	
RLA Una	44250	1	81(165)	--	--
Total		**222**	**635(1199)**	**--**	**122(247)**

Annexure-VI

(Reference: Para - 4.6.9.2) Details of cases with blank cover notes and duplicate cover notes

Name of auditee unit	Total records	No. of Blank Cover notes	No. of duplicate Cover notes[113]
RTO Mandi	5577	36	1 (2)
RLA Banjar	1127	19	1 (3)
RLA Hamirpur	22742	5588	44 (139)
RLA Jawali	11110	889	18 (38)
RLA Kandaghat	1668	108	0
RLA Kangra	18235	2805	64 (221)
RLA Karsog	14457	11711	11 (56)
RLA Kullu	15884	2418	80 (819)
RLA Palampur	9394	122	2 (4)
RLA Shimla (U)	20593	7945	17 (67)
RLA Sunder Nagar	16647	4494	25 (128)
RLA Una	45072	15994	133 (605)
TOTAL		**52129**	**396(2082)**

112 The figures in brackets denote total number of cases

113 The figures in brackets denote total number of cases

Annexure – VII

(Reference: Para - 4.6.9.3) Details of vehicles where registration certificate has expired

Name of auditee unit	Number of Vehicle where registration certificate has expired
RLA Banjar	106
RLA Hamirpur	2189
RLA Jawali	316
RLA Kandaghat	335
RLA Kangra	1331
RLA Karsog	241
RLA Kullu	1789
RLA Palampur	2812
RLA Shimla (U)	1461
RLA Sunder Nagar	1658
RLA Una	3554
TOTAL	**15792**

Annexure - VIII

(Reference: Para - 4.6.9.5) Details of cases where no penalty was levied for delay in registration

Name of auditee unit	Number of cases where no fine levied for delayed registration	Range of delay
STA Shimla	588	1-3550
RTO Dharamsala	1,774	1-4934
RTO Mandi	630	1– 4962
RTO Shimla	2,004	1-4015
RTO Solan	2,849	1-4864
RLA Banjar	438	1-4022
RLA Hamirpur	4,573	1-4962
RLA Jawali	683	1-4721
RLA Kandaghat	333	1-4838
RLA Kangra	1,102	1-4047
RLA Karsog	522	1-3927
RLA Kullu	389	1-4729
RLA Palampur	1,512	1-3934
RLA Shimla (Urban)	485	1-4948
RLA Sunder Nagar	290	1-2547
RLA Una	5,835	1-3627
Total	**24,007**	

Annexure - IX

(Reference Para - 4.6.9.6) Details of cases where fitness certificate not renewed

(Amount in ₹)

Name of auditee unit	Number of cases where fitness has been expired as on 31.03.2011	Fitness Fee realisable
STA Shimla	310	81800
RTO Dharamsala	2960	714500
RTO Mandi	1885	436600
RTO Shimla	2235	534600
RTO Solan	1079	299500
RLA Banjar	208	55600
RLA Hamirpur	81	20900
RLA Jawali	540	140500
RLA Kandaghat	105	28000
RLA Kangra	604	150500
RLA Karsog	193	48100
RLA Kullu	2825	698100
RLA Palampur	1503	347400
RLA Shimla (Urban)	29	7600
RLA Sunder Nagar	1931	516900
RLA Una	2366	690600
Total	**18854**	**4771200**

Annexure –X

(Reference: Para - 6.3.9.3) Incorrect opening balance "Industry Department"

(₹ in lakh)

Year	Closing balance of previous year as on 31st March		Opening balance shown by the Department as on 1st April		Difference Excess (+) Less (-)	
	Principal	Interest	Principal	Interest	Principal	Interest
2006-07	90.78	172.57	90.37	183.98	(-) 0.41	(+) 11.41
2008-09	82.52	187.46	87.95	194.36	(+) 5.43	(+) 6.90
2009-10	81.75	187.31	81.20	187.12	(-) 0.55	(-) 0.19
Total	255.05	547.34	259.52	565.46	(+) 4.47	(+) 18.12

Annexure –XI

(Reference: Para - 6.3.9.3) Incorrect closing balance of interest "Co-Operation Department"

(₹ in lakh)

Year	Opening balance of overdue arrear of interest as on 1st April	Total recovery of interest due including overdue arrear of previous year	Recovery made during the year	Closing balance of overdue arrear of interest as on 31st March as shown in the Annual Report	Closing balance should be (Col. 3 –Col. 4)	Variation between closing balance shown in Annual Report and actually arrived (Excess (+) Less (-) (Col.5 – Col.6)
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**
2004-05	128.49	204.77	76.37	132.00	128.40	(+) 3.60
2005-06	132.00	277.26	147.45	129.84	129.81	(+) 0.03
2006-07	129.84	469.57	348.76	123.93	120.81	(+) 3.12
2007-08	123.93	346.64	223.25	123.39	123.39	------
2008-09	123.39	330.41	169.56	160.79	160.85	(-) 0.06
2009-10	160.79	307.68	164.53	143.15	143.15	------
			Total	**813.10**	**806.41**	**(+) 6.69**

Annexure –XII

(Reference: Para- 6.3.13.1) Variation between FA figures and Departmental figures "Co-operation Department"

(₹ in lakh)

Year	Recovery position of principal			Recovery position of interest		
	As per finance accounts	As per AR	Variation Excess (+) Less (-) (Column 3–Column 2)	As per finance accounts	As per AR	Variation Excess (+) Less (-) (Column 6–Column 5)
1.	2.	3.	4.	5.	6.	7.
2005-06	229.16	263.59	(+) 34.43	147.45	147.45	-----
2006-07	295.53	295.52	(-) 0.01	348.76	348.76	-----
2007-08	502.61	502.44	(-) 0.17	223.98	223.25	(-) 0.73
2008-09	470.16	470.68	(+) 0.52	169.67	169.56	(-) 0.11
2009-10	441.16	440.46	(-)0.70	164.53	164.53	-----
Total	**1938.62**	**1972.69**	**(+) 34.07**	**1054.39**	**1053.55**	**(-) 0.84**

Annexure-XIII

(Reference: Para - 6.3.13.1) Interest received as per FA and Departmental records -HPSEB

(₹ in lakh)

Year	Interest received		
	As per FA Figures	As per Departmental figures	Variation excess (+) less (-)
2007-08	566.41	566.76	(-) 0.35
2008-09	201.77	197.27	(+) 4.50
2009-10	193.30	186.96	(+) 6.34
Total	**961.48**	**950.99**	**(+) 10.49**

Annexure –XIV

(Reference: Para- 6.3.13.1) FA figures and Departmental figure -Industry Department

(₹ in lakh)

Year	Recovery position of Principal			Recovery position of Interest		
	As per finance accounts	As per QPR	Variation (+) excess (-) less	As per finance accounts	As per QPR	Variation (+) excess (-) less
2005-06	12.79	8.83	(-) 3.96	16.15	8.33	(-) 7.82
2006-07	13.51	15.91	(+) 2.40	13.10	20.23	(+) 7.13
2007-08	11.60	11.83	(+) 0.23	17.63	12.31	(-) 5.32
2008-09	6.91	6.69	(-) 0.22	13.67	11.08	(-) 2.59
2009-10	11.30	11.94	(+)0.64	20.97	14.59	(-)6.38
Total	**56.11**	**55.20**	**(-) 0.91**	**81.52**	**66.54**	**(-) 14.98**

Annexure –XV

(Reference: Para 6.3.13.3) Irregular conversion of interest and loan into equity and share capital

(₹ in lakh)

Sr. No.	Name of Department	Name of beneficiary (loanee) company/ corporation	Date of conversion	Amount converted		Remarks
				Loan	Interest	
1.	Agriculture	Himalaya Fertilizers Ltd. (now HPGIC)	6/05	Nil	206.17#	Appeared in FA as investment during 2007-08. Interest not credited to receipt head.
		H.P. Agro Industries Corporation	6/08	110.00	174.61	FA is silent on investment and principal is still outstanding as loan. Interest not credited to receipt head.
2.	Co-operation	Tea Factories (Baijnath. Bir, Palampur and Sidhbari)	2/04	317.59@	243.18#	Shown as investment during 2005-06 but loan amount is outstanding. Interest not credited to receipt head.
3.	Horticulture	(i) H.P. Agro Industries Corporation	6/08	157.87	77.00	FA is silent about investment. Interest not credited to receipt head
		(ii) Horticultural Produce Marketing and Processing Corporation	6/08	1000.00@	746.20#	Shown as investment in 2009-10 but loan is still outstanding. Interest not credited to receipt head.
		(iii) Agro Industrial Packaging India Ltd.	6/08	2212.83	3493.99	FA is silent about investment. Interest not credited to receipt head.
4.	Industry	H.P. State Handicrafts and Handloom Corporation	10/07	197.61@	263.69#	Shown as investment during 2007-08 but loan amount is outstanding. Interest not credited to receipt head.
Total				**₹ 3995.90** **₹ 1515.20 @**	**₹ 5204.84** **₹ 1459.24 #**	*@ # appeared in statement No. 14 of FA.*

Annexure-XVI

(Reference: Para- 6.11.1)

Cases where valuation report was prepared by the *Patwaris* on the basis of consideration value

(₹ in lakh)

Sr. No	Name of the SR unit	No. of deeds	Market value as per the actual price applicable	Market value determined on the basis of *parta* prepared by *Patwaris*	Deficient Amount		Total
					Stamp duty	Registration fee	
1	Baldwara	12	86.96	38.12	2.44	0.72	3.16
2	Barsar	3	15.93	4.75	0.49	0.22	0.71
3	Chirgaon	8	38.29	12.05	1.31	0.39	1.70
4	Indora	10	149.13	129.54	0.92	0.19	1.11
5	Kangra	12	30.78	17.99	0.60	0.24	0.84
6	Morang	4	45.64	6.91	1.94	0.32	2.26
7	Nurpur	12	40.84	32.14	0.44	0.17	0.61
8	Palampur	10	53.01	43.32	0.48	0.20	0.68
9	Pooh	12	159.30	52.09	5.37	0.56	5.93
10	Rajgarh	2	61.07	13.11	2.40	0.24	2.64
11	Rampur	3	34.30	7.10	1.36	0.40	1.76
12	Sunni	5	12.70	9.63	0.15	0.06	0.21
Total		**93**	**727.95**	**366.75**	**17.90**	**3.71**	**21.61**
			Say ₹ 7.28 crore	**Say ₹ 3.67 crore**	**₹ 17.90 lakh**	**₹ 3.71 lakh**	**₹ 21.61 lakh**

Annexure-XVII
(Reference: Paragraph 6.11.2)
Short realisation of Stamp duty and Registration fee due to under valuation of property)

(₹ in lakh)

Sr. No	Name of the SR unit	No. of deeds	Market value as per the actual price applicable	Market value determined on the basis of *parta* prepared by *Patwaris*	Deficient Amount		Total
					Stamp duty	Registration fee	
1	Banjar	3	15.88	2.63	0.66	0.27	0.93
2	Jwalamukhi	10	52.59	43.78	0.44	0.17	0.61
3	Nerwa	5	16.90	11.69	0.26	0.10	0.36
4	Rajgarh	12	84.35	38.30	2.34	0.91	3.25
5	Sundernagar	1	117.68	52.96	3.24	0	3.24
6	Sunni	6	41.58	4.78	1.84	0.29	2.13
Total		**37**	**328.98**	**154.14**	**8.78**	**1.74**	**10.52**
			₹ 328.98 lakh	**Say ₹ 154.14 lakh**	**₹ 8.78 lakh**	**₹ 1.74 lakh**	**₹ 10.52 lakh**