Report of the Comptroller and Auditor General of India on Revenue Receipts

for the year ended March 2011

Government of West Bengal

Report No. 3

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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 sales tax/VAT, land revenue, stamp duty and registration fees, profession tax, electricity duty, state excise, other tax receipts, mines and minerals and other non-tax receipts of the State.

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

OVERVIEW

I. General

This Report contains 38 paragraphs including four performance audits relating to underassessment/non-realisation/loss of revenue etc. involving ₹ 558.70 crore. Some of the major findings are mentioned in the following paragraphs:

The total receipts of the Government for the year 2010-11 increased to ₹47,264.20 crore against ₹36,921.65 crore in the previous year. Of this, 50 *per cent* was raised by the Government through tax revenue (₹21,128.74 crore) and non-tax revenue (₹2,380.49 crore). The balance 50 *per cent* was received from the Government of India as the State's share of net proceeds of divisible Union taxes (₹15,954.95 crore) and grants-in-aid (₹7,800.02 crore).

(Paragraph 1.1.1)

As on 30 June 2011, 1,007 inspection reports issued upto December, 2010 containing 3,039 audit observations involving ₹4,280.62 crore were outstanding for want of response or final action by the concerned departments.

(Paragraph 1.2.1)

Test check of the records of sales tax, land revenue, state excise, stamp duty and registration fees, profession tax, electricity duty, amusement tax, other tax and non-tax receipts conducted during the year 2010-11 indicated under-assessment/short levy/loss of revenue amounting to ₹1,734.96 crore in 1,072 audit observations. During the course of the year, the departments accepted underassessment of ₹330.69 crore in 332 audit observations pointed out in 2010-11 and recovered ₹3.29 crore at the instance of audit.

(Paragraph 1.5.1)

II. Sales Tax/Value Added Tax

A Performance audit on **'Utilisation of declaration forms in inter-state trade and commerce'** indicated the following deficiencies:

- Weak internal controls in the Department resulted in non-compliance of the rules in respect of maintaining accounts and custody of the declaration forms.

(Paragraph 2.10.7.1)

- The Department did not maintain a database of concessions and exemptions allowed to the dealers in course of inter-state trade.

(Paragraph 2.10.8)

- Inadequate uploading of the information of declaration forms in the Tax Information Exchange System (TINXSYS) defeated the purpose of introduction of TINXSYS.

(Paragraph 2.10.10.2)

- Weak monitoring of requisitions by the Verification Cell for cross verification of declaration forms resulted in low detection of irregularities in inter-state trade.

(Paragraph 2.10.11)

- Allowance of concessions/exemptions by the assessing authorities (AAs) without cross verification of declaration forms resulted in non-levy and non-realisation of tax of ₹ 4.78 lakh.

(Paragraph 2.10.12.1, 2.10.12.2 and 2.10.12.3)

- Irregular allowance of stock transfer of goods by the AAs in 15 cases of 15 dealers of six charges resulted in underassessment of tax of ₹ 9.57 crore.

(Paragraph 2.10.13)

Determination of gross turnover (GT)/taxable balance (TB) at ₹ 136.51 crore instead of ₹ 320.02 crore led to short determination of GT/TB by ₹ 183.51 crore resulting in short levy of tax of ₹ 20.11 crore in 16 cases.

(Paragraph 2.12.1 and 2.12.2)

Irregular allowance of remission of tax resulted in underassessment/irregular remission of tax of ₹ 28.80 lakh in six cases.

(Paragraph 2.13)

Non-levy of tax on contractual transfer price (CTP) and irregular allowance of deduction towards payment made to sub-contractor led to short determination of CTP of ₹ 40.50 crore with consequential tax effect of ₹ 2.64 crore in six cases.

(Paragraph 2.16.1 and 2.16.2)

Mistake in computation of output tax on the part of AAs led to short levy of output tax, surcharge and additional surcharge of ₹ 80.57 lakh in 10 cases.

(Paragraph 2.18.1 and 2.18.2)

Lack of cross verification of genuineness of dealer's fake claim led to allowance of Input Tax Credit (ITC) on fictitious/fake purchases worth ₹ 2.02 crore and non-imposition of penalty of ₹ 4.03 crore in 14 cases.

(Paragraph 2.22.1)

Failure of the Assessing Authorities (AAs) to detect purchase of goods from unregistered dealers led to irregular allowance of Input Tax Credit (ITC) to the tune of ₹ 77.80 lakh in nine cases.

(Paragraph 2.25.1, 2.25.2 and 2.25.3)

III. Land Revenue

Irregular conferment of absolute ownership of 237.71 acres of land owned by the State Government comprised in 14 textile mills of National Textile Corporation Limited (NTC) led to violation of the Land Transfer Rules.

(Paragraph 3.8)

Failure of the district authorities to settle the water bodies by calling fresh tenders and lack of internal control mechanism in maintaining registers led to non-realisation of lease rent/revenue to the tune of ₹ 14.87 lakh.

(Paragraph 3.10)

Failure of the department to finalise long term settlement with unauthorised occupiers led to non-realisation of revenue of ₹ 11.18 lakh.

(Paragraph 3.11)

IV. State Excise

A Performance audit on **'Assessment, levy and collection of Excise Duty and Fees'** indicated the following deficiencies:

- Absence of provision of allowable transit and handling wastages of spirit for Foreign Liquor (FL) manufactories resulted in undue benefit of ₹7.78 crore.

  (Paragraph 4.7.7)
- Absence of provision for imposition of late fee for delayed renewal of FL licenses led to non-realisation of excise revenue of ₹46.01 lakh.

  (Paragraph 4.7.9)
- Short yield of beer by 114.35 lakh BL resulted in non-realisation of excise duty of ₹14.87 crore.

  (Paragraph 4.7.11)
- Failure of the department to monitor and supervise the accounts of consumption of molasses resulted in non-realisation of excise duty of ₹ 206.62 crore.

  (Paragraph 4.7.16)
- Failure of the department to detect transportation of molasses without/with expired transit pass led to non-imposition of maximum penalty of ₹ 17.56 crore.

  (Paragraph 4.7.24)

V. Motor Vehicles Tax

A Performance audit on **'Computerisation in Motor Vehicles Department'** indicated the following deficiencies:

The Department started implementation of 'VAHAN' and 'SARATHI' in the year 2004 without formulating any User Requirement Specification (URS).

(Paragraph 5.7.8)

The implementation of 'VAHAN' and 'SARATHI' was either not completed in all the motor vehicles offices or it was partially utilised even after the expiry of seven years. The motor vehicles check-posts were not computerised till November 2011 and the objective of uniform readable Driving License and Registration Certificate throughout the State had not been achieved.

(Paragraph 5.7.6, 5.7.7, 5.7.14 and 5.7.15)

There was failure in administrative controls which resulted in lack of security policy, non-updating of antivirus software and non-segregation of duties.

(Paragraph 5.7.9, 5.7.10 and 5.7.12)

The State Register of driving licences (SARATHI) was not prepared and the State Register of Registration Certificate (VAHAN) was not completed till November 2011.

(Paragraph 5.7.19)

There was absence of interconnectivity of the national permit system with the State Register and the system was not able to fetch the required information from the State Register for issue of national permits.

(Paragraph 5.7.20)

The Department had not taken any initiative to pursue centralised tendering process resulted in avoidable expenditure on data entry, oversized tax token and Annual Maintenance Contract.

(Paragraph 5.7.21.1, 5.7.21.2, 5.7.21.5 and 5.7.21.6)

Non-maintenance of Electronic Tax Demand Register (TDR) by the Regional Transport Officers (RTO) resulted in non-realisation of tax, additional tax and penalty of ₹73.41 crore from the owners of 1,14,987 vehicles.

(Paragraph 5.9)

VI. Electricity Duty

Weak monitoring of realisation of electricity duty by the district collectors resulted in non-realisation of revenue of ₹ 1.02 crore in eight cases.

(Paragraph 6.8)

VII. Other Tax Receipts

Absence of time limit for issuance of demand notice towards payment of stamp duty and registration fees in the Acts/Rules resulted in non-realisation of revenue of ₹ 5.23 crore.

(Paragraph 7.4.1 and 7.4.2)

Absence of a mechanism for cross verification with the license granting authorities to bring the tax evaders in the tax net led to non-realisation of profession tax of ₹ 36.80 lakh.

(Paragraph 7.5)

VIII. Mines and Minerals

Lack of initiation by the District Land and Land Reforms Officers (DL and LROs) to recover the price of brick earth extracted unauthorisedly resulted in non/short realisation of revenue of ₹ 70.53 lakh in 387 cases.

(Paragraph 8.7)

Inaction to assess dead rent on the part of the Chief Mining Officer led to non-assessment and non-realisation of dead rent of ₹ 22.58 lakh.

(Paragraph 8.9)

IX. Other Non-Tax Receipts

A Performance audit on **'Assessment and collection of Police Receipts'** indicated the following deficiencies:

- Non-implementation and incorrect determination of average basic pay after implementation of ROPA, 2009 resulted in short recovery of police cost of ₹ 64.62 crore.

(Paragraph 9.3.6)

- Police cost demanded on actual number of force deployed instead of sanctioned strength resulted in short recovery of ₹ 14.62 crore.

(Paragraph 9.3.11.3)

- Lack of proper initiation on the part of the Home Department to obtain audit certificate led to non-raising of demand for re-imbursement of expenditure of ₹ 85.85 crore.

(Paragraph 9.3.12.1)

- Irregular adjustment of charges by the railway authority led to short realisation of police cost of ₹ 18.45 crore.

(Paragraph 9.3.13)

- Unserviceable vehicles not traceable in depot led to loss of revenue of ₹ 35.56 lakh.

(Paragraph 9.3.20.1)

CHAPTER I : GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of West Bengal during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to States 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)

Sl. No.	Receipts	2006-07	2007-08	2008-09	2009-10	2010-11
1	Revenue raised by the State Government					
	• Tax revenue	11,694.77	13,126.33	14,419.15	16,899.98	21,128.74
	• Non-tax revenue	1,248.76	1,473.09	4,966.39	2,438.11	2,380.49
	Total	12,943.53	14,599.42	19,385.54	19,338.09	23,509.23
2.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes	8,505.60	10,729.06	11,321.78	11,648.16	15,954.95
	• Grants-in-aid	4,379.18	4,838.90	6,197.07	5,935.40	7,800.02
	Total	12,884.78	15,567.96	17,518.85	17,583.56	23,754.97
3.	Total receipts of the State Government (1 and 2)	25,828.31	30,167.38	36,904.39	36,921.65	47,264.20[1]
4.	Percentage of 1 to 3	50	48	53	52	50

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 23,509.23 crore) was 50 *per cent* of the total revenue receipts against 52 *per cent* in the preceding year. The balance 50 *per cent* of receipts during 2010-11 was received from the Government of India.

[1] For details, please see Statement No. 11 – Detailed statement of revenue by minor heads in the Finance Accounts of the Government for the year 2010-11. Figures under the heads 0020-Corporation tax, 0021 - Taxes on income other than corporation tax, 0032 - Taxes on Wealth, 0037 – Customs duty, 0038 - Union excise duties, 0044 - Service tax, -'Share of net proceeds assigned to States' booked in the Finance Accounts under A - Tax revenue have been excluded from revenue raised by the State and included in State's share of divisible Union taxes in this statement.

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Tax on Sales, trade etc.	7,079.03	8,060.46	8,955.09	10,509.64	13,275.77	(+) 26.31
2.	State excise	817.36	935.46	1,082.94	1,443.81	1,783.34	(+) 23.51
3.	Stamp duty and registration fees						
	Stamps judicial	112.53	54.99	357.16	85.83	74.56	(-) 13.13
	Stamps non-judicial	746.70	490.23	527.15	722.20	910.71	(+) 26.10
	Registration fees	399.34	871.74	625.18	1,006.19	1,279.94	(+) 27.20
4.	Taxes and duties on electricity	526.35	506.69	587.52	664.57	769.09	(+) 15.72
5.	Taxes on vehicles	508.97	532.07	608.01	774.34	936.01	(+) 20.87
6.	Land revenue	952.69	1,039.58	983.78	928.92	1,253.66	(+) 34.95
7.	Other taxes on Income and Expenditure-Taxes on Profession, Trades, Callings and Employment	264.85	295.06	321.60	362.40	388.54	(+) 7.21
8.	Other taxes and duties on Commodities and Services	284.73	341.18	367.15	393.11	441.18	(+) 12.22
9.	Other taxes	2.22	(-) 1.13	3.57	8.97	15.94	(+) 77.70
Total		**11,694.77**	**13,126.33**	**14,419.15**	**16,899.98**	**21,128.74**	(+) 25.02

The increase in tax revenue receipts in 2010-11 over the preceding year from State excise (23.51 *per cent*), Sales Tax (26.31 *per cent)*, Taxes on vehicles (20.87 *per cent*), Land Revenue (34.95 *per cent*) and taxes and duties on electricity duty (15.72 *per cent*) was attributed by the concerned Departments to increased receipts of excise duty on account of intensive and continuous preventive operations as well as imposition of various restrictions, introduction of advalorem duty structure in Foreign Liquor and increase of initial grant fee, security deposit, etc., more receipts on collection under Central Sales Tax, more collection under Central Motor Vehicles Act and State Motor Vehicles Act, and more receipts from surcharge on land revenue, Rural Employment Cess on Coal Mines and Collection of Royalties from Mines and Minerals and the increased collection of electricity duty from the

West Bengal State Electricity Distribution Company Ltd respectively. The other Departments did not inform (October 2011) the reasons for variation despite being requested (May 2011).

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Roads and Bridges	18.11	13.66	18.58	25.90	22.52	(-)13.05
2.	Forestry and wildlife	40.87	49.84	45.33	64.17	75.49	(+)17.64
3.	Interest receipts	683.66	689.96	3,999.90	362.83	716.84	(+)97.56
4.	Medical and public health	68.13	42.83	66.36	47.34	67.03	(+)41.59
5.	Education, sports, art and culture	16.22	21.42	44.62	73.04	65.21	(-)10.72
6.	Food storage and warehousing	87.67	247.71	340.17	1,292.97	877.31	(-)32.14
7.	Police	71.33	63.02	66.88	68.67	103.62	(+)50.89
8.	Dairy development	22.25	26.94	29.84	27.43	26.84	(-)2.15
9.	Housing	10.43	9.68	9.07	14.52	11.52	(-)20.66
10.	Others	230.09	308.03	345.64	461.24	414.11	(-)10.21
Total		**1,248.76**	**1,473.09**	**4,966.39**	**2,438.11**	**2,380.49**	(-)2.36

The decrease in non-tax revenues in 2010-11 over the preceding year under Food storage and warehousing (32.14 *per cent*) was mainly due to decrease in receipts under Other Items-Other Receipts. The other Departments did not inform (October 2011) the reasons for variation despite being requested (May 2011).

1.2 Response of the Departments/Government towards audit

Audit observations raised during local inspection are replied by the concerned authorities after issue of inspection report(s). On non-receipt of satisfactory reply/non-settlement of the observations in the departmental audit committee meeting(s), the potential observations are converted into draft paragraph(s) and forwarded to the Departments/Government for reply/comments within six weeks. In case, the reply furnished by the Government is not satisfactory, the draft paragraph is finally included in the audit report. The Secretary to the Government of the concerned Department, after laying of the audit report in the legislature, forwards explanatory notes on the relevant paragraphs to the Committee on Public Accounts (PAC) for vetting by the Accountant General (AG). After discussion, the PAC makes recommendations for compliance by the Government within six months for final settlement of the paragraph.

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

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

A review of IRs issued upto December 2010 disclosed that 3,039 paragraphs involving ₹ 4,280.62 crore relating to 1,007 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of outstanding IRs	1,145	1,109	1,007
Number of outstanding audit observations	3,161	3,012	3,039
Amount involved (₹ in crore)	4,179.03	4,253.42	4,280.62

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

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1	Finance	Sales Taxes/ VAT	227	987	136.22
		Electricity duty	52	95	53.33
		Amusement Tax	39	79	25.08
		Profession Tax	74	180	8.31
		Stamp duty and registration fees	248	382	50.31
2.	Excise	State excise	19	50	53.65
3.	Land and Land Reforms	Land Revenue	69	497	158.18
4.	Transport	Taxes on motor vehicles	96	270	15.68
5.	Commerce and Industries	Non-ferrous mining and metallurgical industries	76	272	123.28
6.	Forest	Forestry and wild life	82	166	48.09
7.	Public Works, Police and Irrigation and Waterways	Receipts from Public Works, Police and Water rate	25	61	3,608.49
Total			**1,007**	**3,039**	**4,280.62**

Even the first replies required to be received from the heads of offices within two months from the date of issue of the IRs were not received for 406 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 AG in the IRs.

We recommend that the Government should design an effective procedure to ensure prompt and appropriate response to audit observations as well as institute a system for taking action against officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules and who also fail to take action to recover loss/outstanding demand in a time bound manner.

1.2.2 Departmental audit committee meetings

The Government sets up audit committees to monitor and expedite the progress of the settlement of 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:

Departments	Number of meetings held	Number of paragraphs		Money Value of paragraphs settled (₹ in lakh)
		Discussed	Settled	
Land and Land Reforms	3	208	203	3,715.13
Irrigation and Waterways	3	83	72	3,312.79
State Excise	1	68	20	89.12
Power and Non-conventional Energy sources	1	8	8	9.91
Commerce and Industries	1	42	0	0.00
Transport	2	112	0	0.00
Total	**11**	**521**	**303**	**7,126.95**

Thus, out of ten departmental[2] audit committees, six committees held 11 meetings during 2010-11 and settled 303 paragraphs involving money value of ₹ 71.27 crore. The other Departments did not hold any audit committee meeting during 2010-11 despite being requested.

The Government may consider holding audit committee meetings of each department at least twice a year.

[2] Commerce and Industries Department, Excise Department, Finance (Revenue) Department (comprising of Directorate of Commercial Taxes, Directorate of Registration and Stamp Revenue, Directorate of Electricity), Forest Department, Industrial Reconstruction Department, Irrigation and Waterways Department, Land and Land Reforms Department, Power and Non-conventional Energy Sources Department, Public Works Department and Transport Department.

1.2.3 Response of the departments to the draft audit paragraphs

We issued 45 draft paragraphs (clubbed into 38 paragraphs) including four performance audits to five Departments proposed for inclusion in the Audit Report 2010-11. After regular persuasion through reminders, five Departments furnished replies in respect of 26 draft paragraphs. The details of draft paragraphs issued and replies received during the last three years are mentioned below:

Name of the Department	Head of Revenue	Year	No. of DPs issued	Reply received
Finance	Sales Tax/VAT	2008-09	20+1(R)[3]	12
		2009-10	22	1
		2010-11	22	9
	Stamp Duty and Registration Fees	2008-09	2+2 (R)	Nil
		2009-10	2	Nil
		2010-11	2	Nil
	Profession Tax	2008-09	1	Nil
		2009-10	2	Nil
		2010-11	2	1
	Electricity Duty	2008-09	1	-
		2009-10	-	-
		2010-11	3	3
Excise	State Excise	2008-09	9	7
		2009-10	5	2
		2010-11	1 (R)	1
Land and Land Reforms	Land Revenue including Mines and Minerals	2008-09	8	3
		2009-10	8	5
		2010-11	10	8
Transport	Taxes on Motor Vehicles	2008-09	5	Nil
		2009-10	1 (R)	Nil
		2010-11	4	3
Home (Police)	Police Receipts	2008-09	-	-
		2009-10	-	-
		2010-11	1(R)	1

The Government should issue instructions to the concerned departments for furnishing reply to the draft paragraphs within the stipulated period of six weeks.

[3] Performance audit

1.2.4 Follow up on Audit Reports – summarised position

As per the Rules of Procedure of the Committee on Public Accounts of the West Bengal Legislative Assembly (Internal Working) framed in 1997, the concerned Department shall send action taken notes (ATN) on the recommendations contained in the Report of the PAC within six months from the date of its presentation to the House. The position of outstanding ATNs due from the Departments is mentioned in the following table:

PAC Report	Date of presentation in the Assembly	Name of the Department	Year of Audit Report	Numbers of ATNs due
17th Report of 1988-89	5 May 1989	Irrigation and Waterways	1978-79 1983-84	2 1
2nd Report of 1991-92	9 April 1992	Land and Land Reforms Department	1980-81	1
7th Report of 1991-93	23 March 1993	Finance	1983-84	1
25th Report of 1994-96	1 August 1995	Transport	1983-84	1
		Home(Police)	1988-89	1
16th Report of 2002-03	8 July 2003	Finance	1998-99	1
22nd Report of 2003-04	7 July 2004	Finance	1998-99	8
35th Report of 2004-05	8 July 2005	Land and Land Reforms	1999-00	5
2nd Report of 2006-07	28 November 2006	Finance	2003-04	8
20th Report of 2008-09	17 March 2009	Housing	2001-02	2
23rd Report of 2008-09	24 March 2009	Transport	2006-07	2
35th Report of 2010-11	25 March 2011	Excise	2006-07	1
37th Report of 2010-11	25 March 2011	Public Works	2001-02	1
12				**35**

Thus the Departments failed to submit ATNs within the stipulated period of six months in respect of 35 paragraphs included in the Audit Reports upto the year ended March 2007.

1.2.5 Compliance with the earlier Audit Reports

The Committee on Public Accounts discusses the Receipt Audit Reports and presents its own reports and recommendations for compliance by the Government. Normally 20 *per cent* of the total number of paragraphs of the Audit Report are selected every year for discussion. The remaining paragraphs are disposed of on the basis of replies of the Government.

As of 31 March 2011, the Government had not furnished explanatory notes in respect of 37 selected and 1419 unselected paragraphs including 461 sub paragraphs of Audit Reports from 1981-82 to 2008-09. The lack of response from the Government would adversely impact the revenue realisation.

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

Land and Land Reforms Department

The succeeding paragraphs 1.3.1 to 1.3.2 discuss the action taken by the **Land and Land Reforms Department** to deal with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Reports for the years 2001-02 to 2010-11.

1.3.1 Position of Inspection Reports

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

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2001-02	138	1133	325.79	14	156	75.48	3	78	4.80	149	1211	396.47
2002-03	149	1211	396.47	13	70	81.47	4	39	0.59	158	1242	477.35
2003-04	158	1242	477.35	12	114	39.73	4	110	5.17	166	1246	511.91
2004-05	166	1246	511.91	5	108	20.86	9	247	204.67	162	1107	328.10
2005-06	162	1107	328.09	7	63	10.50	1	27	0.89	168	1143	337.70
2006-07	168	1143	337.70	8	117	13.73	2	15	0.47	174	1245	350.96
2007-08	174	1245	350.96	7	43	3.79	1	5	0.82	180	1283	353.93
2008-09	180	1283	353.93	8	72	13.53	3	22	1.97	185	1333	365.49
2009-10	185	1333	365.49	10	207	21.45	89	822	204.30	106	718	182.64
2010-11	106	718	182.64	5	54	17.63	42	273	42.09	69	499	158.18

The Department settled lesser number of paragraphs as compared to additions during the last 10 years except in the years 2004-05, 2009-10 and 2010-11. The Department held three audit committee meetings during the year 2010-11 and settled 203 outstanding paragraphs. The position of audit committee meetings held during the last five years is mentioned in the following table:

Year	Number of meetings held	No. of paras settled	Money value of the paras settled (₹ in lakh)
2006-07	0	0	0.00
2007-08	0	0	0.00
2008-09	1	1	0.85
2009-10	0	0	0.00
2010-11	3	203	3715.13

1.3.2 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 is mentioned below:

(₹ in crore)

Year of AR	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Position of recovery of cases as on 31.03.2011
2001-02	12	27.63	3	0.51	1.22
2002-03	6	28.92	2	27.31	0.21
2003-04	4	1.84	-	-	0.29
2004-05	6	0.88	2	0.28	-
2005-06	4	13.22	1	0.02	0.01
2006-07	6	962.50	6	273.93	-
2007-08	5	0.70	4	0.40	-
2008-09	5	37.34	5	37.03	14.20
2009-10	4	1.73	4	1.10	0.04
2010-11	5	1.27	4	1.25	0.17
Total	**57**	**1,076.03**	**31**	**341.83**	**16.14**

The Department accepted 31 paragraphs involving ₹ 341.83 crore during the last 10 years but realised ₹ 16.14 crore (4.72 *per cent*) till 31 March 2011 which is very low. This shows that the recovery mechanism like realisation of royalty, cess, *salami*, rent, etc. from the *raiyats*, lessees and *patta* holders and settlement of leases, *sairati* interest, etc. is not functioning properly.

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

The draft performance audits conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These performance audits are also discussed in an exit conference and the Department's/Government's views are included in the Audit Reports.

The following paragraphs discuss the issues highlighted in the performance audit on Land and Land Reforms Department featured in the Audit Report for the year 2006-07 including the recommendations and action taken by the Department/ Government.

Year of AR	Name of the perform-ance audit	Number of Recomm-endations	Details of the recommendations accepted	Status
2006-07	Assessment and Collection of Land Revenue	Four (4)	i) The Department may prepare a consolidated district wise database of land with mills, factories, etc. vested to the Government for better control of land. A time bound programme for the DL and LROs should also be formulated to review the status of land with closed mills and also the requirement of land of existing mills, factories, etc., and record the vested land in the prescribed register in order to monitor the use of the Government land. The land sold/transferred illegally should either be recovered or settled with the unauthorised transferees on realisation of revenue.	All the DL and LROs have earlier been advised by Land and Land Reforms Department to maintain Registers properly vide this Department's memo no. 4956 (18) - PAC/2A-3/2007 dated 13.09.2010. All the DL and LROs have again been asked by the Department's memo no.- 4435 (18) PAC/2A-67/ 2008 Part V dated 07.09.11 to comply with the following. a) To formulate a time bound programme for the DL and LROs to review the status of land comprised in closed mills and record the vested land in the prescribed register in order to monitor the use of the Government land. b) To review the Lease Registers to ensure that the leases are renewed in time. c) To review the status of land transferred inter-departmentally to ensure its proper utilisation.
			ii) The Government should consider fixing a time limit for execution of lease agreement where advance possession of the Government land has been given and also for settlement of the Government land with the unauthorised occupants. Instructions should be issued to the DL and LROs to strictly adhere to the provisions of the WBL and LR Manual and ensure that advance possession of land is not given without the express approval of the Government. Review of the Lease Registers should be made mandatory to ensure that the leases are renewed in time.	
			iii) The Government should urgently review the use and requirement of land permanently transferred to any authority under the administrative control of any Ministry of the Government of India and ensure that the land not in requirement for the purpose for which it was transferred is relinquished in favour of the L and LR Department. Cases where the Government of India, body corporate or any company are in occupation of Government land without obtaining settlement should be reviewed and necessary steps need to be taken for its early settlement. Necessary instruction should also be issued to the DL and LROs to review the status of land transferred interdepartmentally to ensure its proper utilisation.	
			iv) The Government should effectively use internal audit to ensure that the various wings of the Department are functioning efficiently for optimum collection of revenue.	Internal Audit has already been conducted by the Department in terms of order no. 4315-PAC/2A-3/2007 dated 27.08.07. The Assistant Auditors of the Department have been performing Internal Audit on a regular basis.

1.4 Audit planning

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

During the year 2010-11, the audit universe consisted of 232 auditable units, of which 159 units were audited during the year 2010-11 which is 68.53 *per cent* of the total auditable units. The details are shown in **Appendix-I** of the report.

Besides the compliance audit mentioned above, four performance audits on "Utilisation of declaration forms in inter-state trade and commerce", "Assessment, levy and collection of Excise Duty and Fees", "Computerisation in Motor Vehicles Department" and "Assessment and collection of Police Receipts" were also taken up to examine the efficacy of the tax administration and receipts of Finance Department, Excise Department, Transport Department and Home (Police) Department respectively.

1.5 Results of Audit

1.5.1 Position of local audit conducted during the year

Test check of the records of 167[4] units of commercial tax, state excise, land and land reforms, transport, stamp duty and registration fees, forest and other departmental offices conducted during the year 2010-11 revealed underassessments/short levy/loss of revenue aggregating to ₹ 1,734.96 crore in 1,072 cases. During the course of the year, the Departments concerned accepted underassessments and other deficiencies of ₹ 330.69 crore involved in 332 cases of which 318 cases involving ₹ 330.22 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 3.29 crore in 279 cases during 2010-11.

1.5.2 This Report

This report contains 38 paragraphs including four performance audits on **"Utilisation of declaration forms in inter-state trade and commerce", "Assessment, levy and collection of excise duty and fees", "Computerisation in Motor Vehicles Department"** and **"Assessment and collection of police receipts"** involving financial effect of ₹ 558.70 crore. The Departments / Government have accepted audit observations involving ₹ 181.42 crore of which ₹ 1.61 crore has been recovered. The replies in the remaining cases have not been received (October 2011). These are discussed in the succeeding Chapters II to IX.

[4] including units covered during performance audit not under audit plan.

EXECUTIVE SUMMARY	
Increase in tax collection	In 2010-11 tax collection in respect of VAT including sales tax and central sales tax increased by 26.31 *per cent* over the previous year which was attributed by the Department to more receipts under central sales tax.
Low audit coverage by internal audit wing	Internal audit wing of the Directorate of Commercial Taxes does not have any audit manual. The wing planned and audited only three charge offices out of 67 charge offices and nine ranges during 2010-11 which was only 12 *per cent* of the total auditable units.
Very low recovery by the Department against observations pointed out by us	During the period 2006-07 to 2010-11 we had pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc. with revenue implication of ₹ 680.14 crore in 89 paragraphs. Of these, the Department accepted 74 paragraphs involving ₹144.50 crore but recovered only a meagre amount of ₹ four lakh.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of 37 units relating to VAT receipts and found underassessment of tax and other irregularities involving ₹ 263.42 crore in 498 cases. The Department accepted underassessment and other deficiencies of ₹ 39.69 crore in 122 cases, of which 117 cases involving ₹ 39.56 crore were pointed out in audit during 2010-11 and the rest in earlier years. An amount of ₹13.35 lakh was realised in 12 cases during the year 2010-11.
What we have highlighted in this Chapter	In this chapter we present a performance audit on "Utilisation of declaration forms in inter-state trade and commerce" with a financial effect of ₹ 9.73 crore. We have highlighted the following points in the performance audit: (i) Weak internal controls in the department resulted in non-compliance of the rules in respect of maintenance of accounts and custody of the declaration forms. (ii) Inadequate uploading of the information of declaration forms in the Tax Information Exchange System (TINXSYS) defeated the purpose of introduction of TINXSYS. (iii) Weak monitoring of requisitions by the Verification Cell for cross verification of declaration forms resulted

	in low detection of irregularities in inter-state trade. (iv) Irregular allowance of stock transfer of goods by the Assessing Authorities (AAs) in 15 cases of 15 dealers of six charges resulted in underassessment of tax of ₹ 9.57 crore. Besides these, we present illustrative cases of ₹ 38.50 crore selected from observations noticed during our test check of records relating to assessment and collection of VAT including sales tax and central sales tax. Similar omissions on the part of the AAs were pointed out by us repeatedly in the Audit Reports for the past several years, but not only do the irregularities persist, these remained undetected by the audited entity till these were detected once again by us. We are also concerned that though omissions were apparent from the records which were made available to us, the AAs were unable to detect these mistakes.
Our conclusion	**We noticed a number of system and compliance deficiencies in respect of proper accounting and safe custody of declaration forms, database of the concessions and exemptions allowed to the dealers, blacklisting dealers found utilising fake / invalid declaration forms, prescribing a time limit for uploading of information of DFs issued and utilised in the TINXSYS, and streamlining of the Verification Cell.** **The functioning of the internal audit wing may be streamlined by drafting its manual and widening its audit coverage. The Department may consider fixing a target for disposal of assessment cases by the AAs in a year.** **It also needs to initiate immediate action to recover the non-realisation, undercharge of tax etc. pointed out by us, more so in those cases where it has accepted our contention.**

CHAPTER II :SALES TAX/VALUE ADDED TAX

2.1 Tax administration

Sales Tax and Value Added Tax (VAT) comprise the receipts under the West Bengal Sales Tax (WBST) Act, 1994, the Central Sales Tax (CST) Act, 1956 and the Value Added Tax Act, 2003. The provisions of the Acts and Rules are administered by the Finance (Revenue) Department headed by the Principal Secretary to the Government of West Bengal. He is assisted by the Commissioner of Commercial Tax, two Special Commissioners, 36 Additional Commissioners, 89 Senior Joint Commissioners, 325 Joint Commissioners and 655 Sales Tax Officers.

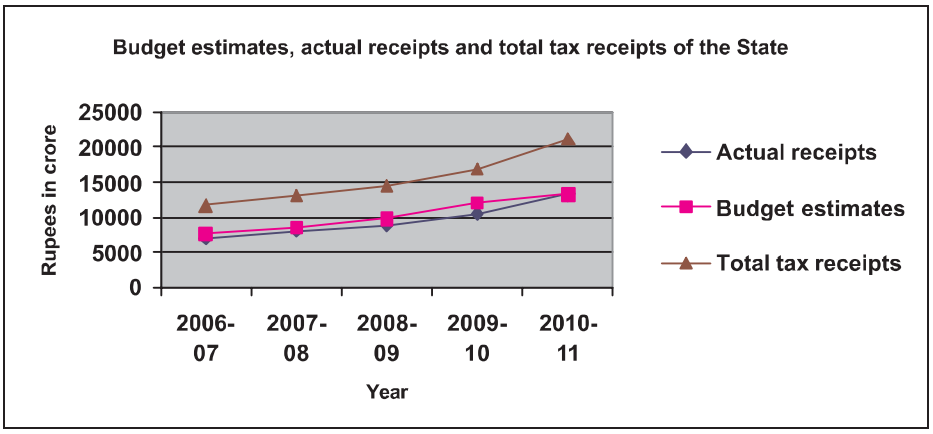
2.2 Trend of receipts

Actual receipts from VAT[1] during the years from 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual VAT receipts vis-à-vis total tax receipts
2006-07	7,622.48	7,079.03	(-) 543.45	(-) 7.13	11,694.77	60.53
2007-08	8,505.71	8,060.46	(-) 445.25	(-) 5.23	13,126.33	61.40
2008-09	9,794.18	8,955.09	(-) 839.09	(-) 8.56	14,419.15	62.10
2009-10	12,046.85	10,509.64	(-) 1,537.21	(-) 12.76	16,899.98	62.18
2010-11	12,257.73	13,275.77	(+) 1,018.04	(+) 8.30	21,128.74	62.83

[1] Includes sales tax, central sales tax and VAT.



A study of budget estimates vis-à-vis actual receipts shows that VAT is the main source of revenue of the State and its contribution towards total tax receipts ranges between 60.53 and 62.83 *per cent*.

2.3 Cost of VAT per assessee

Cost of VAT per assessee for the last five years is shown in the following table:

Year	Cost of collection (₹ in crore)	No. of dealers at the end of the year	Cost of VAT per assessee (₹ in thousand)
2006-07	83.79	1,84,753	4.54
2007-08	92.42	2,12,603	4.35
2008-09	100.34	2,17,731	4.61
2009-10	150.01	2,89,299	5.18
2010-11	165.18	3,10,832	5.31

Source: Finance Accounts and figures furnished by the Department.

The cost of VAT per assessee has steadily increased from ₹ 4.35 thousand to ₹ 5.31 thousand per assessee during the last four years. The steady rise is due to sharp increase in the cost of collection showing enhancement in expenditure towards collection of VAT from a dealer.

2.4 Arrears in assessment

The number of cases outstanding for assessment as on 31 March 2011 was 1,05,804 which was maximum between the period from 2007-08 and 2010-11 as shown in the following table:

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1	Opening balance (No. of cases)	1,69,076	1,15,099	33,045	27,572	89,086
2	Cases initiated during the year	80,077	39,271	62,085	1,02,518	61,514
3	Cases disposed of during the year	1,34,054	1,21,325	67,558	41,004	44,796
4	Cases pending at the end of the year	1,15,099	33,045	27,572	89,086	1,05,804

Source: Figures furnished by the Department.

The arrears in assessment have steadily increased during 2009-10 and 2010-11 due to less disposal of assessment cases during both the years in comparison to previous years.

The Government may consider fixing a target for disposal of assessment cases by the Assessing Officers (AOs) in a year.

2.5 Working of internal audit wing

Internal audit wing of the Directorate of Commercial taxes started functioning from May 1991 as a permanent in-house mechanism for scrutinising and detecting irregularities in the assessments of Sales tax and VAT cases as well as checking of different records/registers to ascertain whether the internal control system as envisaged in the Act and Rules made thereunder is functioning properly. The wing is headed by the Additional Commissioner of Commercial Taxes (ACCT) who is assisted by two Sr. Joint Commissioners, one Joint Commissioner, one Deputy Commissioner, one Upper Divisional Clerk and one Lower Divisional Clerk. The wing does not have any internal audit manual. The wing planned and audited only three charge offices out of 67 charge offices and nine ranges during the year 2010-11. Thus, coverage of internal audit wing during 2010-11 was only 12 *per cent* of the total auditable units and needs to be widened.

The functioning of the internal audit may be streamlined by drafting its manual and the audit coverage should be widened.

2.6 Cost of collection

The gross collection from sales tax and VAT, the expenditure incurred on its collection and the percentage of such expenditure to gross collection for the years 2006-07 to 2010-11 are given in the following table:

(₹ in crore)

Year	Gross collection	Gross expenditure	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
2006-07	7,079.03	83.79	1.18	0.91
2007-08	8,060.46	92.42	1.15	0.82
2008-09	8,955.09	100.34	1.12	0.83
2009-10	10,509.64	150.01	1.43	0.88
2010-11	13,275.77	165.18	1.24	0.96

Source: Finance Accounts.

Though the percentage of expenditure to gross collection decreased in 2010-11, it has always been higher than the all India average. Thus, there is considerable scope for the Government to improve the efficiency of collection.

2.7 Analysis of collection

(₹ in crore)

Year	Amount collected at pre-assess-ment stage	Amount collected after regular assessment	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection[2]	Percentage of column 2 to 6
1	2	3	4	5	6	7
2007-08	8,223.06	99.87	33.17	32.12	8,323.98	98.79
2008-09	8,857.15	98.53	36.12	24.40	8,967.40	98.77
2009-10	10,600.09	96.37	41.27	114.05	10,623.68	99.78
2010-11	13,292.42	95.09	47.82	48.82	13,386.51	99.30

Source: Figures furnished by the Department.

The above table shows that 99 *per cent* of VAT collection is at the pre assessment stage. This indicates good voluntary tax compliance by the dealers.

2.8 Revenue impact of audit reports

During the last five years (including the current year's report), audit had pointed out in the audit reports non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/ suppression of turnover, application of incorrect rate of tax, mistake in computation etc., with revenue implication of ₹ 680.14 crore in 89 paragraphs. Of these, the Department/Government had accepted audit observations in 74 paragraphs involving ₹ 144.50 crore against which part recovery of ₹ 4 lakh in two cases has been intimated. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	15	37.64	12[3]	13.79	NA	NA
2007-08	21	412.51	17[4]	9.48	NA	NA
2008-09	20	44.91	15[5]	10.39	NA	NA
2009-10	15	136.85	13[6]	92.87	NA	NA
2010-11	18	48.23	17[7]	17.97	02[8]	0.04
Total	**89**	**680.14**	**74**	**144.50**	**02**	**0.04**

The above table shows that the Sales Tax Department did not report any recovery against the accepted cases during 2006-07 to 2009-10 and reported marginal recovery in 2010-11which shows that the Department does not have any mechanism to monitor or watch the recovery in the accepted cases.

[2] Departmental figure is at variance with the Finance Account figure which is to be reconciled.
[3] 10 paragraphs partly accepted.
[4] 16 paragraphs partly accepted.
[5] 14 paragraphs partly accepted.
[6] All paragraphs partly accepted.
[7] Three paragraphs fully and 14 paragraphs partly accepted.
[8] Partly recovered.

We recommend that the Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.

2.9 Results of audit

In 2010-11 we test checked the records of 37 units relating to VAT receipts and found underassessment of tax and other irregularities involving ₹ 263.42 crore in 498 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1	**Utilisation of declaration forms in inter-state trade and commerce (A Performance audit)**	1	9.73
2	Incorrect determination of contractual transfer price	51	70.76
3	Irregular allowance of Input tax credit	88	62.47
4	Irregular allowance of compounded rate of tax	86	8.02
5	Application of incorrect rate of tax	37	9.91
6	Other irregularities	235	102.53
Total		**498**	**263.42**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 39.69 crore in 122 cases, of which 117 cases involving ₹ 39.56 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. An amount of ₹13.35 lakh was realised in 12 cases during the year 2010-11.

Audit findings of the performance audit on **'Utilisation of declaration forms in inter-state trade and commerce'** with financial effect of ₹ 9.73 crore and a few illustrative cases involving ₹ 38.50 crore are mentioned in the following paragraphs.

2.10 Performance audit on "Utilisation of declaration forms in inter-state trade and commerce"

Highlights

- Weak internal controls in the Department resulted in non-compliance of the rules in respect of maintenance of accounts and custody of the declaration forms.

(Paragraph 2.10.7.1)

- The Department did not maintain a database of concessions and exemptions allowed to the dealers in course of inter-state trade.

(Paragraph 2.10.8)

- Inadequate uploading of the information of declaration forms in the Tax Information Exchange System (TINXSYS) defeated the purpose of introduction of TINXSYS.

(Paragraph 2.10.10.2)

- Weak monitoring of requisitions by the Verification Cell for cross verification of declaration forms resulted in low detection of irregularities in inter-state trade.

(Paragraph 2.10.11)

- Allowance of concessions/exemptions by the assessing authorities without cross verification of declaration forms resulted in non-levy and non-realisation of tax of ₹ 4.78 lakh.

(Paragraph 2.10.12.1, 2.10.12.2 and 2.10.12.3)

- Irregular allowance of stock transfer of goods by the AAs in 15 cases of 15 dealers of six charges resulted in underassessment of tax of ₹ 9.57 crore.

(Paragraph 2.10.13)

2.10.1 Introduction

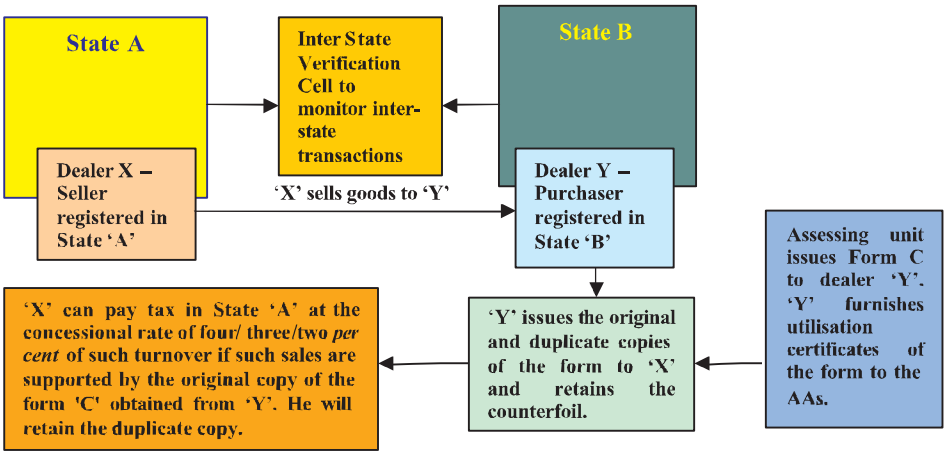
Under the Central Sales Tax (CST) Act, 1956 read with the Central Sales Tax (Registration and Turnover) Rules (CST Rules), 1957 and the Central Sales Tax (West Bengal) Rules, 1958, registered dealers are eligible to certain concessions and exemptions of tax on inter-state transactions on submission of prescribed declarations in form 'C' and form 'F'. The State Government grants these incentives to the dealers for furtherance of trade and commerce. It is the responsibility of the Commercial Taxes Directorate to ensure proper accounting of these declaration forms and to take adequate safeguards against misutilisation of declaration forms on which tax relief is allowed involving large amounts of revenue to the State exchequer.

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,

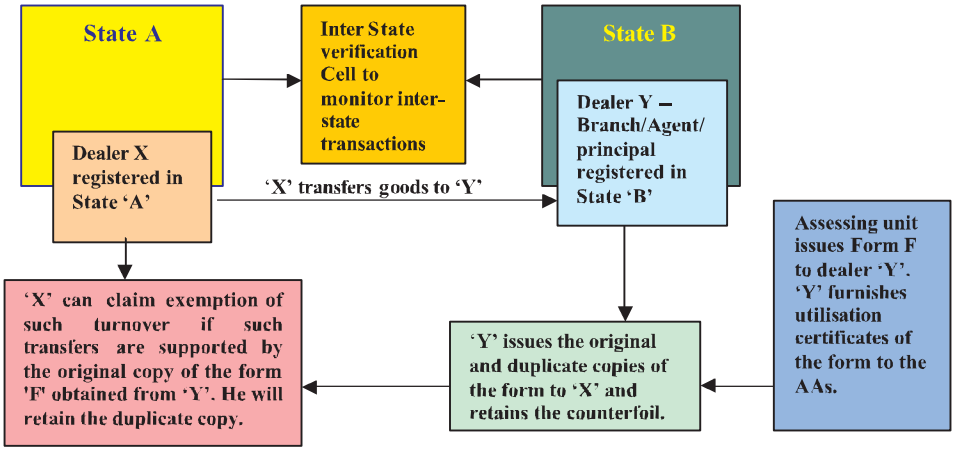
specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent* (three *per cent* w.e.f. 1.4.2007 and two *per cent* w.e.f 1.6.2008) of such turnover provided such sales are supported by declarations in form 'C'.

The steps involved in the process are illustrated below:



Form 'F'

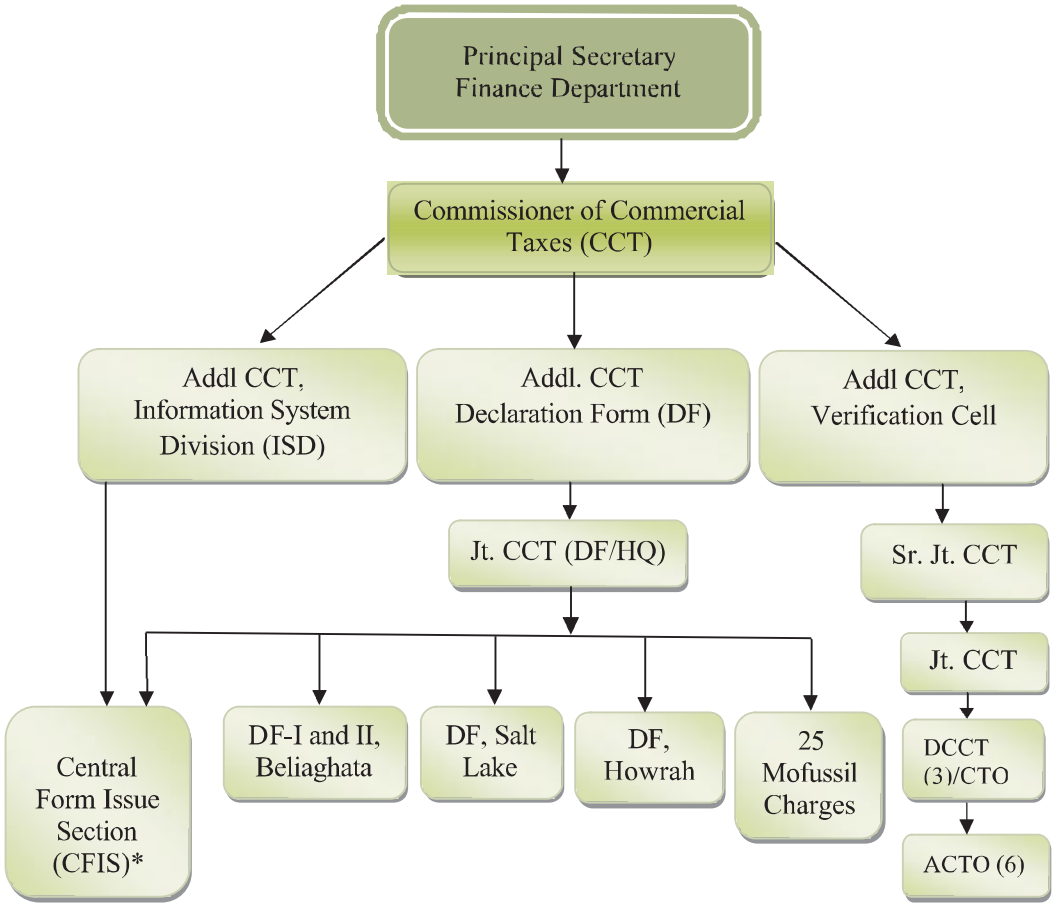
Under Section 6A of CST (Amendment) Act, 1972, transfer of goods not by reason of sales by a registered dealer to any other place of his business outside the State or to his agent or principal in other states is exempt from tax on production of declaration in form 'F', duly filled in and signed by the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



2.10.2 Organisational set up

The CST Act is administered by the Directorate of Commercial Taxes (DCT) which is under the administrative control of the Principal Secretary, Finance (Revenue) Department. The overall control and superintendence of the Directorate is vested with the Commissioner of Commercial Taxes (CCT), West Bengal who is assisted by two Special Commissioners, 45 Additional Commissioners (Addl. CCTs), 1,105 Senior Joint Commissioners (Sr. JCCTs), Joint Commissioners (JCCTs), Deputy Commissioners (DCCTs), Sales Tax Officers (STOs) and 1,220 Assistant Sales Tax Officers (ASTOs) for administering the provisions of the Act and Rules made thereunder.

The Additional Commissioner (Declaration Form), the Additional Commissioner (Verification Cell) and the Additional Commissioner (Information System Division) are responsible for the work of placing printing orders and distribution of declaration forms (DFs), verification of inter-state transactions and feeding the information of issue and utilisation of declaration forms in TINXSYS[9] respectively. The organisational structure of the Directorate in respect of monitoring of the declaration forms is illustrated in the following organogram:



**Defunct after introduction of e-application system.*

[9] Tax Information Exchange System is a website started by the Government of India for verification of inter-state transactions.

2.10.3 Audit objectives

The performance audit aimed to ascertain whether:

- there exists a foolproof system for printing, safe custody and issue of the declaration forms;
- exemption/concession of tax granted by the AAs was supported by valid/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 the dealers and the declaration forms in the TINXSYS website and the data available therein is being utilised for verifying the correctness of the forms;
- appropriate steps are taken on detection of fake, invalid and defective (without proper or insufficient details) forms; and
- there exists an effective and adequate internal control mechanism for preventing and detecting revenue leakage.

2.10.4 Scope and methodology of audit

The performance audit on "Utilisation of declaration forms in inter-state trade and commerce" was conducted between November 2010 and December 2011 covering 14 charge offices[10] and assessments finalised during the period from 2007-08 to 2009-10. The scope of the performance audit was limited to only 'C' and 'F' forms. Cases noticed during regular audit of other units during the current as well as in the previous audit cycle have also been included. Besides, DFs issued by the Department were cross-verified on a sample basis in all the 14 charge offices in a phased[11] manner. The system of printing, custody, issue and utilisation of declaration forms, feeding of information for TINXSYS was also scrutinised from the apex to the charge offices level and the results thereof have been incorporated in the performance audit.

2.10.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Directorate of Commercial Taxes in providing the necessary records for audit. Before taking up the performance audit, an entry conference was held on 22 November 2010 with the Addl. CCT, Directorate of Commercial Taxes in which the audit objectives, scope and methodology of the performance audit were discussed. The findings of the performance audit were forwarded to the Department and to the Government in December 2011 and were discussed in an exit conference held in December 2011 which was represented by the CCT

[10] Alipore, Armenian Street, Asansol, Balurghat, Ballygunge, Coochbehar, Corporate Division, Esplanade, Jalpaiguri, Jorabagan , N.S. Road, Salt Lake, Siliguri and Suri.

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

and other senior officials of the Directorate. The replies of the Department received during the exit conference have been appropriately incorporated in the respective paragraphs.

2.10.6 Trend of revenue

Budget estimates and actual receipts of revenue under Central Sales Tax and total tax receipts of the state for the period 2006-07 to 2010-11 are mentioned below:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/ shortfall(-)	Percentage excess(+)/ shortfall(-)	Total tax receipt of the State	Percentage of actual CST receipt vis-à-vis total tax receipt
2006-07	819.69	799.20	(-) 20.49	(-) 2.50	11,694.77	6.83
2007-08	994.11	797.54	(-) 196.57	(-) 19.77	13,126.33	6.08
2008-09	1,105.73	821.02	(-) 284.71	(-) 25.75	14,419.15	5.69
2009-10	1,360.05	862.21	(-) 497.84	(-) 36.60	16,899.98	5.10
2010-11	1,123.82	1,059.19	(-) 64.63	(-) 5.75	21,128.74	5.01

(Source: Finance Accounts)

The table above shows that the receipts from CST increased during the period between 2008-09 and 2010-11 despite decrease in the rate of tax. The reason for such increase was attributed by the Department to increase in the number of dealers as well as expansion of trade. The contribution of CST towards total tax receipts continuously decreased between 2006-07 and 2010-11 and came down to 5.01 *per cent* in 2010-11 from 6.83 *per cent* in 2006-07. The Department also never achieved the budget estimates during the period 2006-07 to 2010-11.

Audit findings

2.10.7 Printing and issue of forms

The Additional Commissioner working under the CCT is responsible for placing printing orders for DFs with M/s Saraswaty Press Limited (SPL), a State Government undertaking. The Jt. CCT in charge of Declaration Form (Headquarter) {DF (HQ)} is designated as the Declaration Form Officer (DFO). He is entrusted with the work of receiving DFs from the press and their distribution to different sections/charge offices as per their requisition.

We found in the DF (HQ) in October 2011 that the assessment of requirement for printing of forms was made on the basis of availability of forms in the charge offices. Accordingly printing orders were placed with the press.

During the exit conference (December 2011) the CCT explained that the printing was a continuous process and was estimated roughly based on requisitions placed by different charges. He also informed that after the "e-application" was introduced in April 2010, around 75 *per cent* forms were being collected through e-application and the CFIS became defunct. However,

for a limited number of forms pertaining to previous periods, the manual system was still continuing.

2.10.7.1 Custody of declaration forms

Rule 106 of the West Bengal Financial Rules (WBFR) provides that the Head of the Office or any officer entrusted with stores of any kind should take special care for arranging for their safe custody, for keeping them in good condition and for protecting them from loss, damage and deterioration. Suitable accommodation should be provided, particularly for valuable and combustible stores. Rule 119 of the WBFR prescribes the certificate in which the acknowledgement is to be issued to the suppliers for stores as a token of receiving the materials as per specification and in good condition. As per the format of the certificate, the date of receipt and page number of the stock register is to be mentioned.

Consequent on receipt of DFs from the press, the same were kept in almirahs in an earmarked room under double lock in the premises of the CCT at Beliaghata. During the course of performance audit in DF (HQ), we found (November 2011) that no dead stock register was being maintained in support of proper custody of forms. No stock entry certificate was attested on the body of the challan issued by the printing press under which the DFs were delivered to the Department. Though there was a stock entry certificate at the overleaf of the tax invoice raised by the printing press against the Department stating that "the articles were received in good condition and necessary entries have been made in the relevant stock register," there was neither any mention of the page number, reference number of the relevant stock register and number of forms received nor had the authority entered the stock at the time of actual receipt.

We further observed from the copies of the challan of printed forms and stock register maintained at DF (HQ) section that the entries in the stock register were delayed for periods ranging between three days and two months and six days in case of 'C' forms and between one day and two months and 20 days in case of 'F' forms. However, the certificate in the prescribed format was issued to the press without entering the details in the stock register. This indicated improper maintenance of the stock register.

- We found in five[12] DF issuing sections between November and December 2011 that the DFs were kept in steel almirahs. In three[13] DF sections the almirahs did not have any double locking system. In the remaining two[14] DF sections, though the almirahs had double locking system, the keys of both the sets were kept with the same person i.e. either the section-in-charge or the officials authorised by the section-in-charge. In CFIS the almirahs marked for the declaration forms were also used for the purpose of keeping other stationery articles and used by all the officials as and when

[12] Beliaghata I & II, Howrah, Salt Lake and CFIS.
[13] Beliaghata I and II and CFIS.
[14] Howrah and Salt Lake.

required. Thus, the possibility of misuse or mutilation of DFs cannot be ruled out.

The Department accepted the audit observations in the exit conference (December 2011).

The Government may consider adopting a uniform procedure for accounting and safe custody of the declaration forms.

2.10.7.2 Improper maintenance of records

The serial number of forms received in DF (HQ) from the press and subsequently issued to different disbursing officers is noted in the Stock-cum-Numerical register.

The total number of forms issued to different disbursing officers along with the acknowledgement of the receiving clerk is noted in an Issue Register.

The DF (HQ) in the Directorate of Commercial Taxes, West Bengal, is functioning exclusively for the purpose of receipt and issue of various types of forms, which includes 'C' and 'F' forms.

The forms are issued to the disbursing authorities from the DF (HQ). These forms are then issued to the dealers as per the recommendations of the Assessing Authorities (AA). The DF (HQ) supplies forms to the counters situated at Beliaghata, Salt Lake and Howrah for issuing the forms to the dealers of various charges situated in those buildings. In addition, forms were issued to Central Form Issue Section (CFIS) with effect from January 2009 for issuing the forms to the dealers on e-filed applications. The 25 mofussil charge offices collect forms from the DF (HQ) section for meeting the demands of their respective dealers.

We found in the DF (HQ), three[15] mofussil charges and four Declaration Form Issue Sections at Beliaghata, Howrah, Salt Lake and Central Form Issue Section, Kolkata that the stock of all types of DFs was maintained together in a single register (folio wise). We noticed that:

- there was no page counting certificate duly attested by the competent authority at the time of opening of stock register;
- in the stock register, the 'balance in hand' column was not filled up;
- the stock of forms was entered in the stock register at the time of issue to different indenting units. As a result, the stock of forms with the DF (HQ) at any point of time could not be ascertained;
- no periodical physical verification of stock register was made by the competent authority to certify the existing stock of declaration forms; and
- reconciliation of stock issued from the DF (HQ) and that received by the issuing office was not done.

[15] Asansol, Siliguri and Durgapur.

In absence of a system of reconciliation of stock, the possibility of loss of forms in transit and their consequent misuse cannot be ruled out. During the course of performance audit, we found that 2,700 'C' forms and 1,000 'F' forms which were issued by DF (HQ) to Alipur charge were not found entered in the stock register of Alipur charge as detailed in the following table:

Nature of Form	Date of issue from DF(HQ)	Serial No.	No. of Forms
C	22-08-07	95C 1022001 to 1023000	1000
C	15-09-09	95C 1630301 to 1632000	1700
F	15-09-09	95P 726001 to 727000	1000

During the exit conference (December 2011) the CCT admitted the audit observation.

2.10.7.3 Non-maintenance of ledger account for e-application

As per the Trade Circular No. 04/2008 dated 29 December 2008 issued by the CCT, for on-line submission of application for and delivery of the statutory forms the actual cost of postage and handling in this process will have to be borne by the dealer. An amount not less than ₹ 500 only is to be paid initially before filing the application for the first time. The CFIS would keep a ledger account of the lumpsum amount paid and consumed by the dealer.

We found from the records in CFIS that no ledger account in respect of lumpsum amount paid and consumed by the dealer is maintained, in absence of which we could not ascertain whether the dealer availing the facility had sufficient balance at his credit at the time of issue of the form to him.

During the exit conference (December 2011) the CCT admitted the audit observation. He confirmed that no ledger was maintained in any kind of form. However, with the advent of dematerialised forms, this system has been discontinued since July 2010.

2.10.7.4 Surrender of unused declaration forms to the Appropriate Assessing Authority after cancellation of registration

Rule 93 of the West Bengal Sales Tax Rules, 1995 and Rule 30 L of West Bengal Value Added Tax Rules, 2005 prescribe that the certificate of registration (RC) of a registered dealer is cancelled, he shall forthwith surrender to the appropriate assessing authority (AAA) all unused declaration forms held by him or in stock.

All declaration forms surrendered shall be cancelled by the AAA within two days and will be reported to the Commissioner within three working days.

We found in case of six dealers in four charges that RCs were cancelled without obtaining utilisation certificates/ unused forms as detailed in the following table:

Name of the Charge	Name of the dealer	TIN	Date of cancellation of RC	Type of form issued to the dealer	Forms remained unused at the time of cancella-tion	Form serial No.	Date of issue
Armenian Street	Calcutta Dye Chem	19520620083 & 3706(AN)C	19.07.07	C	4	NA	31.01.06
Princep Street	M/s Union Diesel Spares	5232/PN/C & PN/8382	21.07.08	C	1	94C-659348	27.03.1998
				C	5	NA	13.12.2001
Salt Lake	Durgeshwari Trading (P) Ltd.	19674502047/241	19.05.08	C	1	95-C 567056	26.07.2006
Alipore	M/s Sri Mahila Grih Udyog Lijjat Papad	19601124069/263	08.03.11	C	4	95C-1414507 to 10	08.05.2009
				F	5	95P-664628 to 32	10.07.2009
	M/S Lina Health Care Ltd.	19602864055	21.05.10	F	12	95P-663046 to 57	12.09.2008
	M/S Shaun automobile Pvt. Ltd.	19603141087/281	09.12.10	C	4	95C-1350862 to 65	20.02.2009

2.10.8 Absence of database of exemptions and concessions

Exemptions/concessions of tax are given to the registered dealers on submission of DFs. A certain amount of revenue is foregone by the State Government in the process. A database of revenue foregone due to exemptions/ concessions is essential so that the Department remains vigilant about the charge offices as well as the commodities where the dealers prefer claims of concessions and exemptions in large numbers and can monitor their misuse, if any.

We found that the Department did not maintain a database of concessions/exemptions allowed to dealers. In the absence of such a database the Department could not quantify the amount of revenue foregone due to exemptions / concessions allowed from time to time nor was it possible for the Department or for audit to carry out a systematic study of the exemptions/concessions.

The Government may consider creating a reliable database of the concessions and exemptions allowed to the dealers.

2.10.9 Enforcement measures

- The Department did not keep a sample of the colour, design and format of the forms prevailing in the other states for comparison in order to identify fake or forged DFs. As such there was a risk of loss of revenue due to acceptance of invalid, obsolete or forged form;
- A list/data bank of non-existing/bogus/fictitious/errant dealers was not maintained. Further, in case of detection of such dealers, the details were not intimated to the charge offices of West Bengal and to the commercial tax authorities of the other states to prevent leakage of revenue;
- There was no system in place regarding blacklisting the dealers who had been found utilising invalid/fake declaration forms in the past and circulation of the names of such dealers among various charge offices of the State and also to the commercial tax authorities outside the State.

The Department admitted the audit observations in the exit conference (December 2011).

The Government may consider blacklisting dealers found utilising fake/invalid declaration forms.

2.10.10 Tax Information Exchange System

Tax Information Exchange System (TINXSYS) is a website which was started by the Government of India as a repository of inter-state transactions taking place among various states and Union territories. TINXSYS can be used by any dealer to verify the counterpart inter-state dealer in any other State. Apart from verification of the dealers, Commercial Tax Department officials also use TINXSYS for verification of declaration forms issued by the other State Commercial Tax Departments and submitted to them by the dealers in support of claim for concessions. The successful implementation of TINXSYS necessitates that every state should upload up-to-date information regarding issue and utilisation of the declaration forms in the TINXSYS website.

In West Bengal, the Information Systems Division (ISD) is responsible for uploading data on declaration forms in the TINXSYS.

2.10.10.1 Non-maintenance of records

The CCT issued directions in February 2005 that the DF sections and the charge offices should send statements on issue of 'C' and 'F' forms twice a month to the ISD for uploading in TINXSYS. The statements relating to the first half of a month are required to be submitted by the 25th of the same month while those of the second half are required to be submitted by the 10th of the next month. All the charge offices are also required to send copies of utilisation statements of declaration forms submitted by the dealers to the ISD for uploading in TINXSYS.

We found that the ISD started uploading information regarding issue and utilisation of DFs from 2006 onwards. However, the directions of February 2005 did not prescribe maintenance of any record/register to monitor the receipts of statements on 'C' and 'F' forms and copies of utilisation statements from the DF sections and the charge offices and consequently the ISD did not maintain any record/register to monitor the same. Hence we could not ascertain the timely receipt of such statements from the DF sections and the charge offices and their uploading in TINXSYS. In absence of any instruction for submission of reports/returns by the DF sections/charge offices/ISD regarding despatch/ receipts/uploading of such information to the higher authorities, they were not in a position to monitor the status and to take remedial action.

After we pointed this out, the CCT accepted the audit observation on non-maintenance of register and stated in the exit conference (December 2011) that the status was monitored through monthly meetings. The reply is not tenable since we found from the information available in TINXSYS website (as on 28 December 2011) that data of 'C' and 'F' forms was uploaded upto the month of September 2011 only and there was a backlog of three months in uploading of data.

2.10.10.2 Inadequate uploading of information of declaration forms in TINXSYS

Timely uploading of information of all the declaration forms issued is the pre-requisite for the success of TINXSYS. Further, the TINXSYS provides for uploading of information of declaration forms including details of purchasing dealers as well as selling dealers. Information of purchasing dealers and selling dealers enables an assessing officer in detecting fake/invalid declaration forms.

We found from the data made available by the ISD that in addition to issue of printed 'C' and 'F' forms, the DCT started online issue of dematerialised 'C' and 'F' forms to the dealers from July 2010. The records of year-wise uploading of issue of 'C' and 'F' forms were not maintained by the ISD. However, cross verification of the result of data analysis with the information available in the website of TINXSYS revealed

that against issue of printed 'C' and 'F' forms as well as generation of 84,477 dematerialised 'C' and 'F' forms, only 27,835 forms were uploaded in the year 2010. Thus, there was short uploading of issue of 'C' and 'F' forms by 56,642 in the year 2010.

Thus, inadequate uploading of information of declaration forms defeated the very purpose of introduction of TINXSYS.

After we pointed this out, the CCT stated in the exit conference (December 2011) that a one time up-to-date data of declaration forms was sent to the TINXSYS authorities in August 2011 for uploading.

The Government may consider prescribing a time limit for uploading of information of DFs issued and utilised in the TINXSYS and a minimum quantum of cross verification of DFs to be done by the AAs before allowing concessions/exemptions in inter-state transactions.

2.10.10.3 Use of TINXSYS website

The CCT by a circular issued in April 1970, instructed all the AAs to conduct cross verification of the declaration form 'C' with the issuing states of Bihar, Orissa and Assam in 10 *per cent* cases.

We found from the TINXSYS website that only 1,104 visits were made to the website by the officials of the DCT during the period from 2007-08 to 2009-10, whereas the number of dealers registered under the CST Act was 1,71,061 at the end of March 2010. No instruction was issued by the CCT regarding compulsory verification of declaration forms through TINXSYS by the AAs for ensuring genuineness of the forms furnished by the dealers before allowing exemptions/ concessions of tax. Though the Government of West Bengal paid an amount of ₹ 84.20 lakh till July 2011 towards contribution of its proportionate share on account of operation and maintenance of TINXSYS, the DCT failed to ensure its proper utilisation.

After we pointed this out, the CCT accepted in the exit conference (December 2011) that TINXSYS had some inherent problems and they could not utilise TINXSYS facilities in full. Further he stated that a circular for checking all the DFs on the TINXSYS would be issued.

2.10.10.4 Lost/defaced declaration forms

Information available on TINXSYS enables the assessing authority in ascertaining the genuineness of the forms furnished by the dealers in support of claim for concessions/ exemptions. Hence, in case of lost/defaced declaration forms, their cancellation should be promptly uploaded in the TINXSYS in order to avoid any misuse.

The ISD started uploading data of central statutory declaration forms in TINXSYS from the year 2006. However, they started capturing records of the cancelled forms from April 2010 only. We cross verified the data made available by the ISD of lost and

defaced declaration forms (between August 2009 and January 2011) with the information available in TINXSYS and found that out of 27 'C' and 'F' forms stated to be lost/defaced, details of only seven forms were uploaded on TINXSYS. Further, these seven forms were shown as valid till the date of audit (December 2011). We also noticed that details of the lost and defaced declaration forms were not being intimated to other states to avoid any misuse.

After we pointed this out, the CCT stated in the exit conference (December 2011) that the process of capturing records of cancellation was functioning in a limited manner and was being refined.

2.10.11 Performance of Inter-State Verification Cell

There is an inter-state Verification Cell under the control of an Additional CCT in the Directorate. The Cell started functioning from October 2004 for the purpose of verification of the genuineness of the claims of various inter-state transactions. Based on the requisitions received from various charges in West Bengal, the Cell verifies the authenticity of the claims of inter-state transactions such as stock transfer, sale, purchase, consignment sales, subsequent sales etc. The Cell also receives requisitions from various states of India for verification of genuineness of 'C' and 'F' forms and the authenticity of the transactions claimed to have effected by their dealers with the dealers of West Bengal. On receipt of verification reports from the charges or the states, those are sent to the concerned charges or the states from where the requisitions for the verification were received.

We found that on receipt of the requisitions for verification of 'C' and 'F' forms from various charges and the other States, the Verification Cell records the particulars of the requisitions in a Receiving Register. On receipt of the verification report, the Cell makes similar entries in the Receiving Register. The Cell records the particulars of the requisitions sent to the charges and the states for verification in an Issue Register. On receipt of the verification reports from the concerned charges and the states the Cell enters the particulars of those verification reports in the Issue Register.

On scrutiny of registers and folders as maintained by the Cell, we found that:

- The number of 'C' and 'F' forms with amount involved in those forms received and issued by the Cell and sent thereafter to the respective charges and the states for their cross verification, were not indicated in the registers. Further, the Cell maintained the registers in such a way that various important entries could not be correlated with one another. As a result, the number of verification reports received and forwarded to the respective charges and the states against requisitions for verification received by the Cell during a period could not be ascertained.

- During the period from 2007-08 to 2009-10 the cell received 913 requisitions for verification of 'C' and 'F' Forms, issued 1,104 requisitions to

the concerned charges and the states outside West Bengal, received 47 verification reports and issued 113 verification reports. Thus, the number of verification reports received against number of requisitions sent for verification was low.

- The Cell did not maintain any database in respect of DFs received and verified; in the absence of which it was unable to furnish information like number of DFs received from the charges and other states in a year and the status of verification. On scrutiny of folders maintained by the Cell we found that during the months of April 2007, April 2008 and April 2009 the verification cell issued 58 requisitions to the other states for verification of transactions relating to 'C' and 'F' forms. The Cell however received only four verification reports. We found that no reminders were issued to the states concerned against non-receipt of the verification reports in respect of 54 requisitions.

- Submission of periodical reports or returns in respect of receipt and disposal of requisitions by the Cell was not prescribed by the CCT. As a result, the performance of the Cell was not monitored by the CCT.

- There was no system in place for monitoring the action taken by the concerned charge offices by the Cell after detection of irregularities in declaration forms and its intimation to the concerned charge office.

The CCT during the exit conference (December 2011) stated that due to various internal reasons, the Verification Cell was not functioning efficiently and he admitted the audit observations.

The Government may consider streamlining the Verification Cell and giving adequate importance to the system of physical cross verification of declaration forms with respect to the records maintained in the other States.

2.10.12 Results of cross verification of declaration forms with other states

As TINXSYS was not functioning optimally, verification of declaration forms with the help of TINXSYS became ineffective. The Verification Cell, in the office of the CCT (constituted in October 2004) also proved to be ineffective, it was incumbent upon the Department to consider alternative mechanisms for monitoring the inter-state transactions effectively.

We cross-verified some transactions conducted in course of inter-state trade and commerce and noticed various irregularities which are discussed in the succeeding paragraphs:

2.10.12.1 Allowance of excess concession against manipulated form

We found in three charge offices that while assessing three cases of three dealers between 2004-05 and 2006-07 the AAs allowed concessional sales of ₹ 24.33 lakh. However, on cross checking the counter foils of the 'C' forms of the purchasing dealers with the original forms of the selling dealers/ statements of purchase it was revealed that the actual sales was ₹ 95,716. This resulted in non-levy of tax ₹ 1.86 lakh as detailed in the following table:

(In ₹)

Name of the Charge	Name of the selling dealer/TIN No.	Period of assessment	Form No.	Name of purchasing dealer/TIN	Name of the state	Concession allowed	Concession allowable	Non-levy of tax
Esplanade	Wright India Ltd. 19451082238	2006-07	HH-063336	New Panorama Colour Lab 11020113159	Sikkim	1210000	10000	72000
Esplanade	International Commercial Corporation 19450177228	2006-07	DD/0002343	Meghalaya Cements Ltd. JH/CST/4787	Meghalaya	514890	14890	50000
Salt Lake	Alen Lab Ltd ST 16031	2004-05	104641	M/s Alen Lab Co Janki Pharma 1001014725	Bihar	708261	70826	63744
Total						**2433151**	**95716**	**185744**

After the cases were pointed out in audit the charge offices stated between September and December 2011 that proposals for *suo motu* revision/necessary action were sent to the higher authority.

2.10.12.2 Allowance of concessional sale against form not issued to the purchasing dealer

We found in four charge offices that while assessing four cases of four dealers between 2005-06 and 2006-07 the AA allowed concessional sales of ₹ 35.08 lakh against forms stated to have not been issued to the purchasing dealers by the Commercial Tax Department of those states.

The irregular allowance of concession of sale of ₹ 35.08 lakh resulted in non-levy/realisation of ₹ 2.19 lakh as detailed in the following table:

(In ₹)

Name of the Charge	Name of the selling dealer/TIN No.	Period of assessment	Form No	Name of purchasing dealer/TIN	Name of the state	Concession allowed	Non-levy of tax
Ballygunge	Dainik Airconditioning. Pvt. Ltd. 19393382273	2006-07	Z-0038401	Anil Agencies 12/02/6929/2/5	Chhattisgarh	523397	31404
Siliguri	United Sales Agency 19892834012	2005-06	HH-078814	Sri Balaji Associates 173/99-2000/C/CT/S	Sikkim	127169	15896
Asansol	Gopal Govind Sponge Pvt. Ltd. 19742882003	2006-07	R/C-2006-800244	M/s Rathi Bar Ltd. 08360850802	Rajasthan	352018	21121
Asansol	Ganapati Enterprise 19741892021	2006-07	JG/C 5499302	Laxmi Iron and Steels	Jharkhand	2505110	150307
Total						**3507694**	**218728**

After the cases were pointed out in audit all the charge offices accepted the audit observations and in three cases realised an amount of ₹ 1.88 lakh and in the remaining one case involving ₹ 31,404 proposal for *suo motu* revision was sent to the higher authority.

2.10.12.3 Evasion of tax by inflating the transaction figure in the declaration form

We found in two charge offices that while assessing two cases of two dealers for the assessment periods 2005-06 and 2006-07 the AAs allowed concession/ exemption of ₹ 7.29 lakh. However, cross-verification of the counterfoil of the declaration form of the purchasing dealer of Sikkim in one case and report of the AA of Chhattisgarh in another case with the assessment records of the selling dealer revealed that the actual sale was ₹ 1.44 lakh against ₹ 7.29 lakh as claimed by the dealer and allowed as such by the AAs. This excess allowance of concession/exemption of ₹ 5.85 lakh resulted in non-levy and non-realisation of tax of ₹ 72,821.

(In ₹)

Name of the Charge	Name of the selling dealer/TIN No.	Period of assessment	Form No.	Name of purchasing dealer/TIN	Name of the state	Concession allowed	Concession allowable	Non-levy of tax
Siliguri	M/s Shree Balaji Associates 19891634025	2005-06	HH-202759	Tengri Enterprise 173/99-00/C/CT	Sikkim	1,10,191	1,06,191	240
Armenian Street	M/s J K Sons & Co.	2006-07	F-1039727	Pankaj Jute Co 22163603444	Chhattisgarh	6,18,860	38,210	72,581
Total						**7,29,051**	**1,44,401**	**72,821**

After this was pointed out in September 2011 the local offices accepted the audit observations in both the cases and in one case involving ₹ 72,581 stated that the matter was sent to the higher authority for necessary action. In the other case recovery was made.

2.10.12.4 Suspected suppression of purchase

Under the provision of Section 10(a) of the CST Act read with Section 96 of the West Bengal Value Added Tax Act, 2003 where a dealer has concealed any sale or purchase with intent to reduce the amount of net tax or any other tax payable by him, he shall pay by way of penalty a sum not exceeding twice the amount of tax which would have been avoided by him if such concealed sales or purchases were not detected and taken into account or shown in his books of account.

We found in four charge offices that while assessing six cases of four purchasing dealers of West Bengal for the assessment period between 2005-06 and 2008-09 the AAs allowed purchase of ₹ 28.53 lakh as per form 2A (Utilisation Certificate) furnished by the dealers as against sale of ₹ 40.43 lakh recorded in the declaration forms available at the end of the selling dealers of the two concerned states (Karnataka and Jammu and Kashmir).

This resulted in possible suppression of purchase of ₹ 11.89 lakh and consequent short-assessment of turnover of sales by identical amount as detailed in the following table:

Sl. No.	Name of the Charge	Name of the Purchasing dealer/TIN/ Period of assessment	'C' Form No.	Name of the selling dealer/TIN	Name of the State	Form (original) Amount (₹)	Amount as per UC (₹)	Purchase shown less (₹)
1.	Ballygunge	Creative Ltd. 19391098020 2007-08	95C 537667	MKM Industries 92760727	Karnataka	19,86,358	17,49,468	2,36,890
2.	Monoharkatra	Associated Electrical and Equipment Corporation 19250293208 2007-08	95C-1217849	Electro System Associate Pvt. Ltd 29710055542	Karnataka	43,383	16,748	26,635
3.	Sealdah	Samir Sports 1959081607 2008-09	95C-1550252	M/s Reliable Plastics KR 5355002	Jammu & Kashmir	46,000	8,600	37,400
4.	Do	Do	95C-1237581	Matchless Enterprise MR/5179288	Jammu & Kashmir	43,030	29,610	13,420
5.	Do	Do	95C-1550251	M/s Sports Syndicate 01201111111	Jammu & Kashmir	30,000	22,500	7,500
6.	Shibpur	Delta Chemical 19702265290 2005-06	95C-0765517	Insecticides India Ltd. 5071877/G	Jammu & Kashmir	18,93,981	10,26,379	8,67,602
Total						**40,42,752**	**28,53,305**	**11,89,447**

The Department needs to investigate these cases to determine the actual value of the transactions.

2.10.13 Irregular allowance of stock transfer

Section 6A of the CST Act prescribes that a dealer seeking exemption for transfer of goods to his agents/branches has to furnish declaration in form 'F'. Transfer of goods effected during a calendar month is to be covered by a single 'F' form. Otherwise, such transfer of goods is liable to be treated as inter-state sale and taxed accordingly. Production of 'F' form in support of transfer of goods has been made mandatory from June 2002.

We found in six[16] charge offices between December 2009 and October 2011 that while assessing 15 cases of 15 dealers between June 2007 and November 2009 for different assessment periods between 2004-05 and 2006-07, the AAs allowed exemption on account of transfer of goods to the branches/agents outside the State for ₹ 2,038.20 crore against the allowable branch transfer of ₹ 1,921.40 crore. This resulted in excess allowance of exemption of sales of ₹ 116.80 crore and consequent underassessment of tax of ₹ 9.57 crore as detailed in the following table:

[16] Ballygunj, Corporate Division, Durgapur, Esplanade, Jalpaiguri and Siliguri.

(₹ in lakh)

Sl. No.	Nature of irregularity	No. of dealers/ cases	Stock transfer allowed	Stock transfer allowable	Excess allowance	Tax effect
1.	Exemption on transfer of goods allowed in excess of total value of 'F' forms	1/1	1,47,554.71	1,36,788.07	10,766.64	861.33
2.	Single 'F' form covered transactions beyond one month	11/11	55,038.23	54,471.31	566.92	60.43
3.	Transaction not covered by 'F' forms	2/2	984.85	655.96	328.89	33.38
4.	'F' forms covering transactions not related to the period of assessment	1/1	242.84	225.07	17.77	1.78
	Total	**15/15**	**2,03,820.63**	**1,92,140.41**	**11,680.22**	**956.92**

After we reported the cases, the Department between March 2010 and November 2011 admitted the audit observations in six cases involving ₹ 20.28 lakh but did not furnish report on realisation of tax (October 2011). In the remaining nine cases involving ₹ 9.37 crore, the Department did not furnish any reply/specific reply.

2.10.14 Irregular allowance of concessional rate of tax

Section 8 of the CST Act prescribes that a dealer seeking concessional rate of tax for sale outside the state to a registered dealer has to furnish declaration in form 'C'. A single DF may cover all transactions of sale which take place in a quarter of a financial year.

We found in four charge offices[17] between June 2010 and August 2011 that while assessing four cases of four dealers between June 2007 and June 2010 for different assessment periods between 2004-05 and 2007-08 the AAs irregularly allowed claims of inter-state sale of concessional rate of tax for sale to registered dealers for ₹ 51.77 crore instead of ₹ 46.71 crore. This resulted in short levy of tax of ₹ 11.53 lakh as detailed in the following table:

(₹ in lakh)

Sl. No.	Nature of irregularity	No. of dealers/ cases	Concessional sale allowed against 'C' forms	Concessional sale allowable against 'C' forms	Excess allowance of concessional sale	Tax effect
1	Concession allowed for more than the amount shown in statement of 'C' forms.	2/2	2,057.19	1,635.02	422.17	6.59
2	Amount related to a single 'C' form was shown twice in the statement	1/1	2,899.35	2,829.79	69.56	3.80
3	Single 'C' form covers transactions spread over multiple quarters as per statement furnished.	1/1	220.16	206.27	13.89	1.14
	Total	**4/4**	**5,176.70**	**4,671.08**	**505.62**	**11.53**

[17] Asansol, Ballygunj, Colootola and Corporate Division.

After we reported the cases, the Department admitted between October 2010 and August 2011 the audit observation in all the four cases but did not furnish any report on realisation.

2.10.15 Non-levy of penalty on evaded tax

Section 76(1) of the West Bengal Sales Tax (WBST) Act, 1994 prescribes that if a dealer has concealed any turnover or furnished incorrect particulars thereof with intent to reduce the amount of tax payable by him, the AA in addition to tax, may impose by way of penalty a sum which shall not be less than one and a half times and not more than thrice the amount of tax that would have been avoided by him.

We found in the Corporate Division (CD 2012) in September 2011 that while assessing a dealer in June 2007 for the assessment period 2004-05, the AA detected claim of transfer of goods worth ₹ 12.79 crore against fake 'F' form and taxed the transaction at the rate of 10 *per cent* treating it as a inter-state sale. The AA found that the goods were sold even before it reached the destination State. The relation between the transferor and transferee was not like principal and agent, but like seller and buyer. Though the AA explained these facts in the assessment orders to prove that the intention of the dealer was to evade tax, he neither levied minimum penalty of ₹ 1.92 crore nor recorded any reason for not doing so.

After we reported the case in September 2011, the Department stated that since levy of penalty u/s 76(1) of the WBST Act was discretionary on the part of the AA; he might not consider the fact necessary for initiation of penal proceedings. The reply was not tenable as the discretionary power of the AA was limited by the provisions of the Act between one and a half times and thrice the amount of tax which would have been avoided by the dealer.

2.10.16 Conclusion

The performance audit revealed a number of deficiencies in the system of custody and issue of the DFs. The Directorate did not comply with the provisions of the WBFR regarding custody and accounting of the declaration forms. Certification of the declaration forms not printed as per specification, absence of a system of physical verification of stock of declaration forms, non-reconciliation of the declaration forms between issuing and receiving sections, declaration forms not surrendered by the dealers whose RCs were cancelled showed the weak monitoring of the DCT. TINXSYS website was not used properly by the AAs to verify the inter-state trade and no instruction to this effect was also issued by the CCT. No database was maintained in the Directorate in respect of concessions and exemptions allowed to the dealers. The verification cell did not monitor the receipts and issue of requisitions and report for cross-verification of declaration forms.

2.10.17 Recommendations

The Government may consider implementation of the following recommendations:

- adopting a uniform and systematic procedure for accounting and safe custody of declaration forms;
- creating a reliable database of the concessions and exemptions allowed to the dealers;
- blacklisting dealers found utilising fake/invalid declaration forms;
- prescribing a time limit for uploading of information of DFs issued and utilised in the TINXSYS and a minimum quantum of cross verification of DFs by the AAs before allowing concessions/exemptions in inter-state transactions; and
- streamlining the Verification Cell and giving adequate importance to the system of physical cross verification of declaration forms with respect to the records maintained in the other states.

Sales Tax/Value Added Tax

2.11 Audit observations

Scrutiny of the assessment records of sales tax/value added tax (VAT) indicated several cases of non-observance of the provisions of the Acts/Rules, non/short levy of tax/penalty/interest/acceptance of defective statutory forms/suppression of sales/irregular concession/incorrect application of rate of tax as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions on the part of the Assessing Authorities are pointed out by us each year, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including internal audit so that such errors can be corrected timely and avoided in future.

Non-compliance of provisions of the Acts/Rules

As per the provisions of the WBST Act 1994, WBVAT Act, 2003 and the CST Act 1956, while finalising the assessments of a dealer, the Assessing Authorities are required to follow the provisions of the Acts and Rules and conduct required verifications to ensure the correctness of the assessment.

The West Bengal Sales Tax (WBST)/West Bengal Value Added Tax (WBVAT)/Central Sales Tax (CST) Act and Rules made thereunder provide for:

- Determination of turnover after allowing permissible deductions;
- Levy of tax/interest/penalty at the prescribed rate;
- Allowing exemption of turnover subject to fulfillment of the prescribed conditions; and
- Allowing of input tax credit as admissible.

We noticed that the Assessing Authorities (AAs) did not observe some of the provisions while finalising the assessments which resulted in non/short levy/non-realisation of tax/interest/penalty of ₹ 38.50 crore as mentioned in the following paragraphs.

2.12 Incorrect determination of gross turnover/turnover of sales

Section 2(40) of the WBST Act, 1994 and section 16 of the WBVAT Act, 2003 prescribe that the turnover of sales in relation to any period, means the aggregate of the sale prices or parts of sale prices receivable by a dealer in respect of sales of goods made during such period. A dealer is liable to pay tax at the prescribed rate on the amount of such turnover after allowing permissible deductions or availing input tax credit. In addition, the dealer is liable to pay surcharge and additional surcharge on the amount of tax payable from April and August 2002 respectively under the WBST Act.

2.12.1 We found in four[18] charge offices between February and May 2010 that while assessing/ reassessing six cases of six dealers under the WBST Act between June 2006 and April 2009 for the assessment periods between 2003-04 and 2004-05, the AAs determined gross turnover (GT)/taxable balance (TB)/taxable turnover (TT) at ₹ 80.25 crore instead of ₹ 98.76 crore due to short disclosure of opening stock, irregular allowance of exemption on tax paid items without verification of purchase statements and short assessment of TB/TT. Short determination of GT/TB/TT of ₹ 18.51 crore resulted in short levy of tax of ₹ 1.34 crore including surcharge and additional surcharge.

After we pointed this out, the Department in July 2010 and March 2011 accepted audit observations in three cases involving ₹ 15.17 lakh, but did not furnish any report on realisation. The Department did not furnish any reply in the remaining three cases involving ₹ 1.19 crore.

We forwarded the cases to the Government between May and November 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.12.2 We found in five[19] charge offices between August 2009 and October 2010 that in assessing 10 cases (including one case of deemed assessment) of 10 dealers under the WBVAT Act between October 2008 and June 2009 for the assessment periods between 2005-06 and 2006-07, the AAs determined turnover of sales/TB at ₹ 56.26 crore instead of ₹ 221.26 crore due to non-inclusion of sale of inventories/hire charges of car, excess allowance of deduction of freight charges, deduction of profit on stock transfer from gross sales and short-assessment of TB/gross sales. Short determination of sales/TB of ₹ 165 crore resulted in short levy of tax of ₹ 18.77 crore.

After we pointed this out, the Department between February and September 2010 accepted audit observations in five cases involving ₹ 3.07 crore, but did

[18] Corporate Divisions (CD 2021 - CD 2030) and (CD 2031 - CD 2040), Durgapur and Medinipur.

[19] Asansol, Bhowanipore, Medinipur, Park Street and Postabazar.

not furnish any report on realisation. In the remaining five cases involving ₹ 15.70 crore the Department did not furnish any reply.

We forwarded the cases to the Government between November 2009 and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.13 Irregular allowance of remission of tax

Section 41 of the WBST Act and the rules made thereunder prescribe that a registered dealer holding an eligibility certificate (EC) may avail the benefit of remission of tax on sale of such goods manufactured by him subject to fulfillment of the prescribed conditions. However, the dealer shall not be eligible for such remission of tax beyond the last date of validity of the EC. The rules under WBST Act provides for invalidation of the EC in case of contravention of the conditions.

We found in three charge offices[20] between February and June 2010 that in assessing six cases of three dealers under the WBST Act between August 2004 and June 2007 for the assessment periods between 2002-03 and 2004-05, the AAs incorrectly allowed remission of tax of ₹ 5.75 crore instead of ₹ 5.46 crore. Of these, in three cases remission of tax was allowed in excess by ₹ 7.58 lakh than the dealer's tax liability, in another case involving ₹ 11.38 lakh remission was allowed on the sale of raw material whereas remission of tax was allowable on sale of goods manufactured by the dealer. In the remaining two cases remission of tax of ₹ 9.84 lakh was allowed for the period from 01.01.2003 to 31.03.2003 though the EC was valid upto 29.01.2003. These resulted in irregular remission of tax of ₹ 28.80 lakh.

After we pointed this out, the Department between August and November 2010 accepted audit observations in five cases involving ₹ 17.42 lakh of which in three cases demand notice of ₹ 5.98 lakh instead of ₹ 7.58 lakh has been issued but did not furnish report on issue of demand notice for the balance amount and realisation of tax. In the remaining case involving ₹ 11.38 lakh the Department did not furnish any specific reply.

We forwarded the cases to the Government between March and November 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[20] Corporate Division (2031-2040), Medinipur and Monoharkatra.

2.14 Non/short levy of interest

Section 33 of the WBVAT Act prescribes that a dealer becomes liable to pay interest at the rate of 12 *per cent* per annum if he either failed to submit returns or failed to pay the net tax payable by the prescribed date. Section 34 of the Act *ibid* further prescribes that where a dealer failed to make payment of any tax due within the date prescribed in the notice, interest is to be included in the demand upto the day preceding the day of initiation of certificate proceedings.

We found in five[21] charge offices between April and September 2010 that in assessing 17 cases of 15 dealers between November 2007 and June 2009 for the assessment period 2005-06 and 2006-07, the AAs levied interest of ₹ 6.25 lakh instead of ₹ 80.17 lakh. Of these, in 11 cases, interest of ₹ 6.25 lakh was levied instead of ₹ 66.15 lakh leviable for non-furnishing of returns by the dealers for different periods and in the remaining six cases the AAs did not include interest of ₹ 14.02 lakh in the certificate demand for non-payment of assessed tax. These resulted in non/short levy of interest of ₹ 73.92 lakh.

After we reported the cases, the Department between April and September 2010 admitted the audit observation in nine cases involving ₹ 18.64 lakh but did not furnish report on realisation. In one case involving ₹ 1.74 lakh, the Department stated that the amount of tax payable was not admitted by the dealer and thus interest was not leviable. The reply was not tenable since the audit finding relates to non-levy of interest for non-submission of returns by the dealers. In the remaining seven cases involving ₹ 53.54 lakh, the Department did not furnish any specific reply.

We reported the cases to the Government between May and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[21] Bhowanipore, Burtola, Maniktala, Park Street and Rajakatra.

2.15 Application of incorrect rate of tax

Section 16(2) of the West Bengal Value Added Tax Act prescribes that the rate of tax on the goods/ commodities sold depends on classification of goods in the schedule. Section 8(2) of the Central Sales Tax Act, 1956 provides that in case of goods other than declared goods, inter-state sale made to unregistered dealers or not supported by declaration in form'C' tax is leviable at the rate of 10 *per cent* or at the rate applicable to the sale or purchase of such goods inside the State, whichever is higher.

We found in 10[22] charge offices between September 2009 and February 2011 that while assessing/reassessing 23 cases of 15 dealers between June 2008 and July 2010 for the assessment periods from 2005-06 to 2007-08, the AAs in 12 cases levied tax on sale of ₹ 22.06 crore at the rate of four *per cent* instead of 12.5 *per cent* under the WBVAT Act whereas in 11 cases the AAs levied tax at the rate of four and ten *per cent* instead of 12.5 *per cent* under the CST Act on inter-state sale of ₹ 43.23 crore made to unregistered dealers or not supported by declaration forms. Thus, application of incorrect rate of tax resulted in short levy of tax of ₹ 2.58 crore.

After we reported the cases, the Department admitted the audit observations between March 2010 and August 2011 in 12 cases involving ₹ 1.85 crore of which one case involving ₹ 33.59 lakh has been referred to the TRO for recovery of tax, but did not furnish any report on realisation. In the remaining six cases involving ₹ 22 lakh the Department stated that electrical furnace and oven are the same commodity and is covered under serial no. 14 of schedule C of the WBVAT Act. Hence, there was no short levy of output tax. The reply is not tenable since electrical furnace and oven are not explicitly covered in the said schedule and thus general rate of tax at the rate of 12.5 *per cent* was applicable on the sale of the commodity both under the VAT and CST Act. In the remaining five cases involving ₹ 50.84 lakh, the Department did not furnish any reply/specific reply.

We forwarded the cases to the Government between November 2009 and March 2011 followed by reminders issued upto July 2011; but they did not furnish any reply (October 2011).

[22] Behala, Belgachia, Bhowanipore, Cossipore, Maniktala, Medinipur, Park Street, Salkia, Shibpur and Taltala.

2.16 Non/short determination of contractual transfer price

Section 15 (1) of the WBST Act prescribes that any transfer of property in goods involved in the execution of works contract shall be deemed to be a sale by the person making such transfer attracting levy of tax at the prescribed rates on such taxable contractual transfer price (CTP).
Section 18 (3) of the WBVAT Act prescribes that in case of works contract where the taxable contractual transfer price (CTP) for application of proper rate of tax is not ascertainable from the books of accounts maintained by the dealer or where a dealer does not maintain books of accounts worthy of credence, tax on CTP should be assessed according to table given under Rule 30 (2) of the WBVAT Rules, 2005.

2.16.1 We found in three[23] charge offices between March and August 2010 that while assessing five cases of five dealers under the WBVAT Act between November 2008 and June 2009 for the assessment periods 2005-06 and 2006-07 the AAs in three cases did not levy tax on CTP of ₹ 22.89 crore admitted by the dealers. In one case the AA allowed deduction of ₹ 84.60 lakh towards payment made to the sub-contractor without verifying the registration number and inclusion of the transferred amount in the sub-contractor's turnover and in the remaining cases tax at the rate of 4 *per cent* was charged on gross CTP of ₹ 27.23 lakh without verifying the account of expenditure towards labour charges and like charges and hence tax is chargeable on the entire CTP as per the table under Rule 30 (2). These omissions resulted in short determination/ irregular allowance of deduction towards CTP/irregular levy of tax on CTP of ₹ 23.74 crore with consequential tax effect of ₹ 1.87 crore.

After we reported the cases, the Department between August and September 2010 admitted the audit observations in four cases involving ₹ 1.81 crore and stated that proposals for *suo motu* revision were sent but did not furnish report on further development. In the remaining case of ₹ 6.49 lakh, the Department did not furnish any specific reply.

We forwarded the cases to the Government between May and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.16.2 We found in Corporate Division (CD 2021-CD 2030) in February 2010 that while assessing a case of a dealer under the WBST Act in May 2007 for the assessment period 2004-05, the AA determined the CTP at ₹ 20.09 crore taxable at the rate of eight *per cent* to the best of his judgement. But while computing the tax, the AA did not levy tax on taxable CTP of ₹ 16.76 crore (₹ 20,09,03,508 - ₹ 3,33,45,611). This resulted in non-assessment of tax of ₹ 77.08 lakh on assessed taxable CTP.

[23] Bhowanipore, Medinipur and Park Street.

After we pointed the case, the Department in March 2010 admitted the audit observation and stated that proposal for *suo moto* revision was sent to reopen the case, but did not furnish report on further development.

We reported the case to the Government in November 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.17 Non-levy of penalty on evaded tax

Section 76 (1) of the WBST Act and section 96 of the WBVAT Act prescribe for penalty if a dealer has concealed any turnover or furnished incorrect particulars thereof or claimed excess amount of tax credit or input tax rebate but has not reversed the same to the extent of his disentitlement. Under the WBST Act, the assessing authority (AA) in addition to tax, may impose penalty which shall not be less than one and a half times and not more than thrice the amount of tax that would have been avoided by him. Under the WBVAT Act, the quantum of penalty should not exceed twice the amount of tax which would have been avoided if such concealment was not detected and accounted for.

2.17.1 We found in Postabazar charge in September 2010 that while assessing two cases of two dealers in May and June 2009 for the assessment period 2006-07 under the WBVAT Act, the AAs detected concealment of sale of imported *vanaspati* of Nepalese origin worth ₹ 2.51 crore and suppressed sale of ₹ 36.90 lakh by the dealers with the intent to evade payment of tax of ₹ 32.87 lakh. But the AAs, while finalising the assessments did not levy maximum penalty of ₹ 65.74 lakh for such concealment. This resulted in non-levy of penalty of ₹ 65.74 lakh.

After we reported the cases, the Department in one case involving ₹ 62.80 lakh stated in September 2011 that penalty under section 96 had been imposed and demand notice in Form 67 had been issued, but did not furnish report on realisation of penalty. In the remaining case the Department did not furnish any specific reply.

We forwarded the cases to the Government in October 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.17.2 We found in Corporate Division (CD 2021-CD 2030) in January 2010 that while assessing a case of a dealer under the WBST Act in June 2005 for assessment period 2002-03 the AA assessed tax in a case of a dealer at ₹ 5.86 lakh on suppressed sale of ₹ 93.66 lakh detected by Central Section but minimum penalty of ₹ 8.79 lakh was not levied. This resulted in non-levy of minimum penalty of ₹ 8.79 lakh.

After we reported the case, the Department accepted the audit observation in January 2010 but did not furnish report on realisation of tax (October 2011).

We forwarded the case to the Government in November 2010 followed by reminder issued upto July 2011; they did not furnish any reply (October 2011).

2.18 Mistake in computation of tax

Under the WBST Act and WBVAT Act, tax or output tax is to be computed at the rate applicable from time to time along with surcharge, additional surcharge, interest and penalty, if any, on the goods/ commodities sold.

2.18.1 We found in five[24] charge offices between November 2009 and September 2010 that in assessing seven cases of seven dealers under the WBVAT Act between July 2008 and June 2009 for the assessment periods 2005-06 and 2006-07, the AAs assessed output tax at ₹ 3.81 crore instead of ₹ 4.44 crore due to arithmetical mistake in computing taxable balance and output tax payable. These resulted in short levy of output tax of ₹ 62.95 lakh.

After we reported the cases, the Department between November 2009 and July 2011 accepted the audit observation in four cases involving ₹ 51.84 lakh, of which in one case involving ₹ 16.01 lakh demand notice has been issued, but did not furnish report on levy and realisation of output tax. In the remaining three cases involving ₹ 11.11 lakh, the Department did not furnish any specific reply.

We forwarded the cases to the Government between January and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.18.2 We found in three[25] charge offices between March and May 2010 that in assessing three cases of three dealers under the WBST Act between June 2005 and June 2007 for assessment periods ending between 2002-03 and 2004-05, the AAs assessed tax including surcharge and additional surcharge at ₹ 1.13 crore instead of ₹ 1.30 crore due to arithmetical mistake in computing taxable balance and purchase tax payable. This resulted in short levy of tax including surcharge and additional surcharge of ₹ 17.62 lakh.

After we reported the cases, the Department in April and September 2010 accepted the audit observation in two cases involving ₹ 16.89 lakh but did not furnish report on levy and realisation of tax. In the remaining case involving ₹ 73,000, the Department stated that notice was issued to the dealer for necessary action. Further report on action taken is awaited (October 2011).

We forwarded the cases to the Government between May and August 2010 followed by reminders issued in July 2011; they did not furnish any reply (October 2011).

[24] Barrackpore, Kadamtala, Lyons Range, Park Street and Postabazar.
[25] Belgachia, Corporate Division (CD 2031 – CD 2040) and Medinipur.

2.19 Irregular allowance of compounded rate of tax

Section 16(3) of the West Bengal Value Added Tax Act prescribes that no registered dealer can pay tax at compounded rate if his turnover in a year exceeds ₹ 50 lakh. Rule 38(4) of the WBVAT Rules prescribe that any registered dealer who intends to opt for payment of tax at such rate shall exercise his option in Form 16 to the appropriate authority within the prescribed date. In absence of such option, the dealer is liable to pay tax at normal rate.

We found in three[26] charge offices between April and September 2010 that while assessing the case of a dealer in June 2009 and in two deemed assessment cases of two dealers for the assessment period 2006-07, the AAs levied tax of ₹ 24,000 at compounded rate[27] instead of ₹ 11.79 lakh on turnover of ₹ 91.50 lakh, although the dealers did not exercise option in Form-16. This resulted in short levy of tax of ₹11.55 lakh.

After we reported the cases, the Department between April 2010 and September 2011 admitted all the audit observations and stated that reopening proposal had been sent but did not furnish report on further progress (October 2011).

We forwarded the cases to the Government between May and November 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[26] Belgachia, Bhowanipore and Shyam Bazar.

[27] 0.25 *per cent* in case of registered dealers, four *per cent* in case of registered clubs and two *per cent* in case of registered dealers making sales by way of transfer of right to use goods.

2.20 Short levy of purchase tax

Section 13(1) of the West Bengal Sales Tax Act, prescribes that a manufacturing dealer is liable to pay purchase tax at the rate of four *per cent* on all purchases of goods from unregistered dealers intended for direct use in manufacture of goods for sale in West Bengal. A registered dealer, who is not a manufacturer, is also liable to pay purchase tax on sale of such goods within the State. The dealers making such purchases shall furnish Annexure 'P' with the returns indicating therein the taxable specified purchase price and tax payable. Section 12 of the West Bengal Value Added Tax Act prescribes that dealers making unregistered purchase of items which are not directly related to business have to pay purchase tax at prescribed rate.

2.20.1 We found in two[28] charge offices between December 2009 and February 2010 that in assessing three cases of three dealers under the WBST Act, 1994 in June 2006 and June 2007 for the assessment periods between 2003-04 and 2004-05, the AAs in two cases assessed taxable purchase at ₹ 1.11 lakh instead of ₹ 94.93 lakh though the dealers' claim of registered purchase was not supported by purchase statements containing the RC Nos. of the selling dealers. In another case, cross verification with the returns of selling dealers revealed that the dealer's claim of registered purchase of ₹ 1.23 crore was fictitious and he had also disclosed unregistered purchase short by ₹ 41.09 lakh. These resulted in underassessment of taxable purchase worth ₹ 2.58 crore and consequent short levy of purchase tax of ₹ 17.81 lakh. In addition, in one case penalty of ₹ 7.36 lakh, though leviable, has not been levied.

After we reported the cases, the Department in May and August 2010 accepted the audit observations and stated that proposal for revision has been sent, but did not furnish report on realisation of tax (October 2011).

We forwarded the cases to the Government in April and November 2010 followed by reminders issued in July 2011; they did not furnish any reply (October 2011).

2.20.2 We found in Bhowanipore charge office in August 2009 that the dealer was a supplier of manufactured items and labour contractor. While assessing the case under the WBVAT Act, in November 2008 for the assessment period 2005-06, the AA did not consider unregistered purchase of "Stores & Spares" not directly related to business worth ₹ 48.70 lakh as taxable purchase. This resulted in short levy of purchase tax of ₹ 6.09 lakh.

After we reported the case, the Department in December 2010 accepted the audit observation and stated that proposal for revision has been sent, but did not furnish report on realisation of tax (October 2011).

[28] Corporate Division (CD 2021 - CD 2030) and New Market.

We forwarded the cases to the Government in November 2009 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.21 Short realisation of tax due to excess credit

Under section 32 of the West Bengal Value Added Tax Act, a dealer is liable to pay value added tax on the basis of self assessment at the time of furnishing returns of his turnover within the prescribed period. The amount of tax so paid is adjusted against the tax finally assessed.

We found in two charge offices[29] between July and September 2010 that in assessing three cases of three dealers in June 2009 for the assessment period 2006-07, the AAs adjusted ₹ 54.12 lakh as tax paid by the dealers instead of ₹ 42.74 lakh actually deposited. This resulted in allowance of excess credit of ₹ 11.38 lakh with consequent short realisation of tax by an identical amount.

After we reported the cases, the Department accepted the audit observations between August and September 2010 in two cases involving ₹ 8.74 lakh and stated that proposal for revision has been sent. Report of revision and realisation of tax has not been received. In the remaining case involving ₹ 2.64 lakh the Department did not furnish any specific reply.

We forwarded the cases to the Government in November and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[29] Bhowanipore and Park Street.

2.22 Allowance of Input Tax Credit (ITC) on fictitious/fake purchases and non-imposition of penalty thereof

Sections 22(1) and 22(4) of the WBVAT Act provide that Input Tax Credit (ITC) is allowable to a registered purchasing dealer to the extent of tax paid or payable by him on purchase of taxable goods against a valid tax invoice obtained against bonafide transaction from the selling registered dealers of West Bengal. Further, Section 96(1)(c) of the Act provides that if any registered dealer has claimed excess amount of input tax credit but has not reversed the same to the extent of his disentitlement, with the intent to reduce the amount of the net tax payable by him, the Commissioner may impose penalty not exceeding twice the amount of tax which would have been avoided if such excess claim were not detected. However, the Act does not prescribe the minimum penalty leviable on the amount of evaded tax.

2.22.1 We found in four[30] charge offices between November 2010 and February 2011 that seven dealers in 14 cases claimed and availed ITC of ₹ 2.02 crore against purchase of goods worth ₹ 51.98 crore between 2005-06 and 2007-08 from 41 dealers. The AAs while assessing the cases between July 2008 and June 2010 allowed ITC of ₹ 2.02 crore without cross verification of the genuineness of the claims. We cross verified the transactions of purchases from the selling dealer's records and found that all selling dealers' registration certificates (RC) had been cancelled before the transaction or subsequently due to their non-existence or closure of business or default in submission of returns. Cross verification further revealed that the selling dealers either did not submit returns or showed no sale to the purchasing dealers in their books of accounts and returns. Thus, the said purchases from non-existent dealers were not made for bonafide purposes and were thus fictitious/fake on which no ITC was allowable. Further, the dealers with the intention to reduce their tax liability and to evade payment of tax, claimed ITC on fictitious/fake purchases and reversed only ₹ one lakh even after lapse of more than two years. The AAs while assessing the cases could not detect the fake claims and allowed the ITC in full. Further, the AAs could not initiate penal proceeding due to non-detection of fake claims. This resulted in irregular allowance of ITC of ₹ 2.02 crore and non-imposition of maximum penalty of ₹4.03 crore.

After we reported the cases, the Department between December 2010 and March 2011 admitted the audit observations in 10 cases involving ₹ 4.94 crore and stated that proposal for *suo motu* revision/review would be initiated but did not furnish any report on further action taken while in the remaining four cases involving ₹ 1.11 crore they did not furnish any specific reply.

2.22.2 We found in Shibpur charge between November and December 2010 that in two cases of two dealers for the assessment period 2007-08, the

[30] Bally, Jorasanko, Salkia and Shibpur.

Department conducted cross verification of the transactions of the purchasing dealers with those of selling dealers and detected false claim of ITC of ₹ 10.85 lakh. Of these in one case the dealer claimed false ITC of ₹ 8.48 lakh but subsequently reversed ₹ 3.23 lakh. In the remaining case the dealer claimed false/fake ITC of ₹ 2.37 lakh on the purchase from non-existent dealer. Thus the dealers' false/fake claim of ITC was done with the intent of reducing tax liability and evading payment of tax. The dealers also did not reverse the ITC to the extent of their disentitlement. Thus they were liable to pay the penalty under the Act. However, the AAs did not initiate any penal proceedings against these evading dealers and did not record the reason in the assessment order for not doing so. This resulted in non-imposition of maximum penalty of ₹ 15.24 lakh.

After we reported the cases, the Department admitted between December 2010 and January 2011 the audit observations in both the cases but did not furnish report on further action taken (October 2011).

We forwarded the cases to the Government between February and March 2011; followed by reminders issued upto July 2011, they did not furnish any reply (October 2011).

2.23 Allowance of ITC to dealers not maintaining stock register

Section 22(11) read with section 63 of the WBVAT Act provides that every registered dealer availing of ITC is required to maintain and keep a true and up-to-date account of the quantity and value of the goods purchased, manufactured, sold or held by him in stock in prescribed form.

We found in two charge offices[31] between December 2010 and February 2011 that while assessing five cases of two dealers between November 2008 and June 2010 for the assessment period between 2005-06 and 2007-08 the AAs allowed ITC of ₹ 2.20 crore in full though the dealers did not maintain true and up-to-date accounts.

We cross-verified all the cases with the tax audit report in form 3-CD submitted by the dealers to the Income Tax Department with records/returns submitted to the AAs and found that the dealers had either not maintained stock, input tax and output tax registers or those were not produced during the visit by Commercial Tax Officers (CTOs) to the dealers' place of business. The AAs also commented in their assessment orders that the dealers did not maintain stock/true and fair accounts.

For non-maintenance of true and up-to-date books of accounts and statutory registers provided in the Act, ITC is not allowable. But the AAs allowed the ITC in full which resulted in irregular allowance of ITC of ₹ 2.20 crore. In addition, interest of ₹ 61.10 lakh in five cases though leviable was not levied.

After we reported the cases the Department in March 2011 admitted the audit observation in three cases involving ₹ 1.80 crore and stated that the cases would be re-opened for fresh assessment but did not furnish report on further

[31] Bally and Shibpur.

action taken. In the remaining two cases involving ₹ 1.01 crore the Department did not furnish any specific reply.

We forwarded the cases to the Government between February and March 2011, followed by reminders issued upto July 2011, but they did not furnish any reply (October 2011).

2.24 Non-levy of interest for non-reversal of ITC

Under section 22 of the WBVAT Act ITC is allowable to a registered purchasing dealer to the extent of tax paid or payable on his purchase of taxable goods subject to the prescribed conditions and restrictions. Under rule 20(9) of the WBVAT Rules, where a dealer had enjoyed ITC which is not admissible to him, the ITC so enjoyed shall be reversed. In case of non reversal of ITC, the dealer is liable to pay interest at the rate of 12 *per cent* per annum for the period commencing on the date immediately following the prescribed date for payment of net tax for such tax period and upto the date prior to the date of payment of net tax or upto the date of assessment, whichever is earlier.

We found in three[32] charge offices between December 2010 and February 2011 that eight dealers in 12 cases claimed and enjoyed ITC of ₹ 1.23 crore during the period between 2005-06 and 2007-08 which was allowed by the AAs in assessments completed between November 2008 and June 2010. Scrutiny further revealed that four dealers in five cases claimed ITC on unregistered purchases and one dealer in one case claimed ITC on false bills/purchases for which no ITC was allowable as per law. Further one dealer in two cases made stock transfer outside the State for which ITC was allowable proportionately and two dealers in four cases did not maintain stock register. Since the dealers were not eligible to get ITC, they were required to reverse the amount of ITC to the extent of their disentitlement. However, no reversal was made by the dealers and the AAs also did not levy any interest for non-reversal of ITC. This resulted in non levy of interest to the tune of ₹ 37.87 lakh.

After we reported the cases, the Department in nine cases involving ₹ 29.78 lakh admitted the audit observations between January 2011 and March 2011. In the remaining three cases involving ₹ 8.09 lakh the Department did not furnish any specific reply.

We forwarded the cases to the Government between February and March 2011 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[32] Bally, Salkia and Shibpur.

2.25 Irregular allowance of ITC on purchase from unregistered dealers

Section 22(4) of the WBVAT Act and Rules made thereunder prescribe that a registered dealer can avail of the benefit of ITC to the extent of tax paid or payable by him in respect of purchases of goods from registered dealers of West Bengal. No ITC is allowed on purchases from unregistered dealers.

2.25.1 We found in two[33] charge offices between March 2010 and February 2011 that in assessing two cases of two dealers between November 2008 and June 2010 for the periods 2005-06 and 2007-08, the AAs allowed ITC of ₹ 4.08 crore instead of ₹ 3.89 crore. In all the cases the VAT numbers of the selling dealers were either identical with that of the purchasing dealers or the selling dealers were non-existent. This resulted in irregular allowance of ITC of ₹ 19.05 lakh on purchases from dealers not having valid registration numbers.

After we reported the cases, the Department in July 2011 stated that in one case involving ₹ 14.89 lakh demand notice has been issued. In another case involving ₹ 4.16 lakh the Department accepted the audit observation in March 2011 but did not furnish report on further action taken.

We forwarded the cases to the Government in May 2010 and March 2011 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.25.2 We found in two[34] charge offices between August and September 2010 that in assessing two cases of two dealers in June 2009 for 2006-07, the AA in one case allowed ITC of ₹ 18.25 lakh instead of ₹ 1.15 lakh on the basis of the "Fact Sheet"[35] submitted by the dealer during first appearance without taking into consideration the unregistered purchases admitted by the dealer in the returns. In another case, the AA allowed ITC of ₹ 65,000 though no purchase statement showing the names, addresses and registration numbers of the selling dealers was available nor was there any mention regarding verification of the same by the AA in the assessment order. This resulted in irregular allowance of ITC of ₹ 17.75 lakh on purchases from unregistered dealers.

We forwarded the cases to the Department and the Government in October and December 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.25.3 We found in two[36] charge offices between December 2010 and February 2011 that in assessing five cases of four dealers between May 2009 and June 2010 for the assessment periods 2006-07 and 2007-08, the AAs allowed ITC of ₹ 41 lakh against the purchase amount of ₹ 10.62 crore from six selling dealers. We cross verified the records of the dealers' database maintained by the Commercial Tax Directorate and found that the registration certificates of all the six selling dealers were cancelled prior to the date of purchase. Thus, the purchases were made from unregistered dealers and

[33] Bally and Durgapur.
[34] Park Street and Postabazar.
[35] A kind of statement submitted by the dealer to AA.
[36] Bally and Salkia.

therefore ITC was not admissible for these purchases. The AAs while assessing the cases could not detect the inadmissible claim of ITC in absence of a system of cross verification of information with the other charge offices and the Directorate. This resulted in irregular allowance of ITC of ₹ 41 lakh.

After we reported the cases, the Department admitted the audit observations between February and March 2011 in all the cases of which in one case involving ₹ 2.20 lakh, demand notice was issued in August 2011, but did not furnish report on realisation and further action taken in the remaining cases (October 2011).

We forwarded the cases to the Government in March 2011 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.26 Excess allowance of ITC

Section 22(4) of the WBVAT Act and Rules made thereunder prescribe that a registered dealer can avail the benefit of ITC to the extent of tax paid or payable by him in respect of purchases of goods from registered dealers of West Bengal. However, the AAs cannot allow ITC in excess of the claim preferred by the dealer.

We found in four[37] charge offices between June 2010 and March 2011 that in assessing five cases of five dealers between October 2008 and June 2009 for 2005-06 and 2007-08, the AAs allowed ITC of ₹ 1.99 crore though the dealers preferred claim of ₹ 1.60 crore. Of these, in one case the AA allowed excess ITC of ₹ 28.63 lakh on closing stock of goods not preferred by the dealer, in another case the AA disallowed ITC claim of ₹ 2.53 lakh instead of ₹ 4.05 lakh though the dealer did not maintain true and fair manufacturing accounts, in two cases the AAs allowed ITC of ₹ 97.93 lakh instead of ₹ 90.41 lakh preferred by the dealers on purchases of ₹ 23.24 crore and in another case the AA allowed excess reverse credit of ₹ 1.28 lakh on tax free items. This resulted in excess allowance of input tax credit of ₹ 38.93 lakh.

After we reported the cases, the Department between August 2010 and March 2011 accepted audit observations in three cases involving ₹ 33.98 lakh, of which in one case demand notice for payment of tax of ₹ 1.63 lakh has been issued in December 2010 but did not furnish report on realisation in all the cases. In one case involving ₹ 1.28 lakh the Department stated in September 2011 that proposal for *suo motu* revision had been sent to the appropriate authority on 12 July 2011. In the remaining case the Department did not furnish any specific reply (October 2011).

We forwarded the cases to the Government between July 2010 and March 2011 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[37] Bally, Howrah, Park Street and Postabazar.

2.27 Irregular allowance of ITC on opening stock

Rule 21(4) of the WBVAT Rules, prescribes that a registered dealer intending to avail ITC on stock of goods lying on the appointed day i.e. 1st day of April 2005 shall submit a statement of such stock in the prescribed format within 30 September 2005 before the Assessing Authority (AA). No ITC shall be available to a dealer on the stock of goods for which such statement was not filed within the prescribed date as per rule 21(6) *ibid.*

We found in Monoharkatra charge office in February 2010 that in assessing the case of a dealer in November 2008 for 2005-06, the AA allowed ITC of ₹ 8.19 lakh on the opening stock of ₹ 2.10 crore though the dealer did not submit the stock statement showing the list of goods and payment of tax separately in the prescribed format within the due date i.e. 30 September 2005. This resulted in irregular allowance of ITC of ₹ 8.19 lakh.

After we reported the case, the Department in August 2010 accepted the audit observation and stated that proposal for *suo motu* revision has been sent, but did not furnish any report of realisation of tax (October 2011).

We forwarded the case to the Government in March 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

2.28 Allowance of ITC on non-consumable goods

Section 22(4) (d) of the WBVAT Act, provides that ITC is allowable to the extent of tax paid or payable by the registered purchasing dealer on his purchase of taxable goods from the registered dealers of West Bengal for the purpose of use as raw materials or consumable stores required for the purpose of manufacture of taxable goods. No ITC is admissible on purchase of non-consumable goods.

Under Rule 20(9) of the WBVAT Rules, where a dealer had enjoyed ITC which is not admissible to him, the ITC so enjoyed shall be reversed. In case of non-reversal of ITC, the dealer is liable to pay interest at the rate of 12 *per cent* per annum.

We found in two[38] charge offices between December 2010 and February 2011 that in assessing seven cases of five dealers under WBVAT Act between May 2008 and June 2010 for the assessment periods between 2005-06 and 2007-08, the AAs allowed the dealers' claim of ITC of ₹ 13.12 lakh on the purchase of various non-consumable goods and materials not directly used in manufacture etc. of ₹ 2.45 crore on which ITC was not admissible. This resulted in irregular allowance of ITC of ₹ 13.12 lakh. Further interest of ₹ 3.16 lakh is leviable in six cases due to non-reversal of inadmissible ITC.

After we reported the cases, the Department stated in June 2011 that an amount of ₹ 1.66 lakh was recovered in one case and in the remaining four cases admitted between February and March 2011 the audit observations and stated that action was being taken for re-opening the cases for fresh assessment but did not furnish report on further action taken (October 2011).

We forwarded the cases to the Government between February and March 2011 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[38] Bally and Shibpur.

EXECUTIVE SUMMARY	
Increase in tax collection	In 2010-11 the collection of taxes from Land Revenue increased by 34.95 *per cent* over the previous year which was attributed by the Department to more receipts from surcharge on land revenue, Rural Employment.
Audit coverage by Internal Audit Wing	Internal Audit Wing of the Land and Land Reforms Department planned to audit 18 District Land and Land Reforms Officers (DL and LROs), 10 Land Acquisition (LA) Collectors, one Rent Controller and one Controller of Thika Tenancy out of 18 DL and LROs, 19 LA Collectors, two Rent Controllers and two Controller of Thika Tenancy during the year. Audit was conducted in respect of 17 DL and LROs, seven LA Collectors, one Rent Controller and one Controller of Thika Tenancy during the period which is 63 *per cent* of the units auditable and 87 *per cent* of the units planned for audit.
Very low recovery by the Department against observations pointed out by us	During 2006-07 to 2010-11, we had pointed out non/short levy, non/short realisation, underassessment /loss of revenue etc. with revenue implication of ₹1,003.54 crore in 25 paragraphs. Of these, the Department accepted audit observations in 23 paragraphs involving ₹313.71 crore of which only an amount of ₹14.46 crore has been recovered by the Department.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of five units relating to receipts from Land Revenue and found non-realisation/blocking of revenue and other irregularities involving ₹786.28 crore in 55 cases. The Department accepted non-realisation/blocking of revenue and other deficiencies of ₹9.05 crore in 38 cases. An amount of ₹1.34 crore was realised in 14 cases.
What we have highlighted in this Chapter	In this Chapter we presented illustrative cases of ₹1.27 crore selected from observations noticed during our test check of records of the office of the DL and LROs and Block Land and Land Reforms Officers (BL and LROs) where we found that the provisions of the West Bengal Land Reforms Act, 1955, West Bengal Land and Land Reforms Manual, 1991 and the Cess Act, 1880 were not complied with. Irregular transfer of 237.72 acres of land by the Department in favour of National Textile Corporation has been pointed out by us. Similar

	other omissions on the part of the DL and LROs and BL and LROs were pointed out by us each year, but not only do the irregularities persist, these remain undetected by them till these were detected once again by us. These irregularities/omissions were apparent from the records made available to us by the DL and LROs and BL and LROs but they were unable to detect these mistakes.
Our conclusion	**The functioning of the internal audit wing is satisfactory though the wing has a shortage of manpower. The manual of the wing is required to be published at the earliest.** **The Department needs to initiate immediate action to recover the non-realisation/blocking of revenue and other irregularities etc. pointed out by us, more so in those cases where it has accepted our contention.**

CHAPTER III : LAND REVENUE

3.1 Tax administration

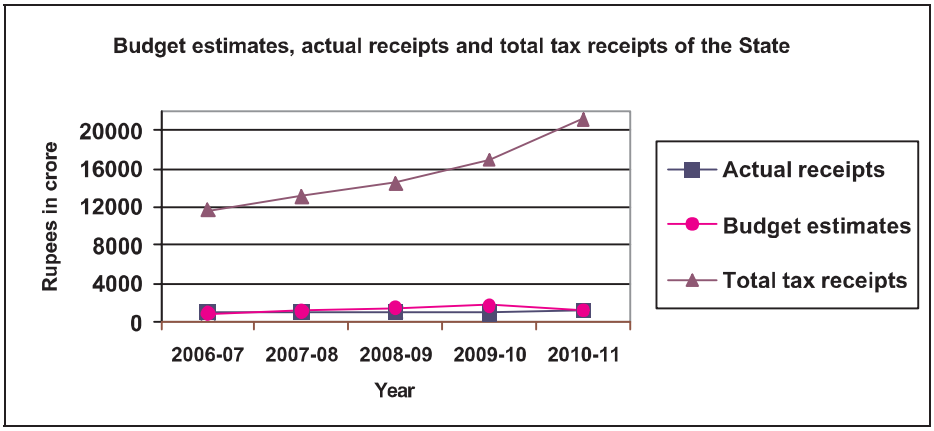
Land Revenue consists of receipts from land rent, rates and cess, management of Ex-*Zamindari* Estates, survey and settlement operations etc. The assessment and collection of land revenue is governed by the West Bengal Land Reforms Act, 1955, West Bengal Land Reforms Rules, 1965, West Bengal Land Acquisition Manual, 1991, West Bengal Land and Land Reforms Manual, 1991 and Land Transfer Rules contained in the Bengal Land Acquisition Act, 1917. Land Revenue is administered by the Land and Land Reforms Department headed by the Principal Secretary, assisted by the Director of Land Records and Survey, 19 District Land and Land Reforms officers (DL and LROs), 59 Sub-divisional Land and Land Reforms officers (SDL and LROs) and 698 Block Land and Land Reforms officers (BL and LROs).

3.2 Trend of receipts

Actual receipts from land revenue during the years 2006-07 to 2010-11 along with the total tax receipts of the year 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	894.51	952.69	(+) 58.18	(+) 6.50	11,694.77	8.15
2007-08	1,109.64	1,039.58	(-) 70.06	(-) 6.31	13,126.33	7.92
2008-09	1,488.58	983.78	(-) 504.80	(-) 33.91	14,419.15	6.82
2009-10	1,711.87	928.92	(-) 782.95	(-) 45.74	16,899.98	5.50
2010-11	1,190.93	1,253.66	(+) 62.73	(+) 5.27	21,128.74	5.93



A study of the budget estimates vis-à-vis actual receipts shows that the actual receipts was less than the budget estimates during the years 2007-08 to 2009-10. The percentage of variation ranged between (-) 6.32 *per cent* and (-) 45.74 *per cent*. In 2010-11 the actual receipts was more than budget estimates and the percentage of variation was (+) 5.26 *per cent*.

The budget estimates showed an increasing trend upto 2009-10 but it decreased sharply in the year 2010-11. Reasons for decrease in the budget estimate of 2010-11 over the preceding year, though called for have not been furnished by the Department (October 2011).

3.3 Cost of collection

The gross collection of land revenue and the expenditure incurred on collection during the years 2008-09 to 2010-11 are given in the following table:

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection
Land Revenue	2008-09	983.78	353.89	35.97
	2009-10	928.92	536.29	57.73
	2010-11	1,253.66	576.57	45.99

Source: Finance Accounts.

Though the percentage of expenditure on collection of land revenue decreased in 2010-11, it is still high. Thus, there is scope for the Government to improve the efficiency in collection of land revenue.

3.4 Revenue impact of audit reports

During the last five years (including the current year's report), we pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc. with revenue implication of ₹ 1,003.54 crore in 25 paragraphs. Of these, the Department/Government had accepted audit observations in 23 paragraphs involving ₹ 313.71 crore and had since recovered ₹ 14.46 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraph included		Paragraphs accepted by the departments		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	6	962.50	6	273.93	1	0.05*
2007-08	5	0.70	4[1]	0.40	NIL	NIL
2008-09	5	37.34	5[2]	37.03	1	14.20
2009-10	4	1.73	4[3]	1.10	2[4]	0.04
2010-11	5	1.27	4[5]	1.25	4	0.17
Total	**25**	**1,003.54**	**23**	**313.71**	**8**	**14.46**

* intimated in July 2011.

Thus, against the accepted cases of ₹ 313.71 crore, the Department/ Government has recovered ₹ 14.46 crore which is only 4.61 *per cent*.

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

3.5 Working of internal audit wing

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The internal audit wing (IAW) of the Land and Land Reforms Department has been re-introduced in the year 2007-08 with the objective of fulfilling accountability obligation, complying with applicable rules and regulations, executing orderly, ethical, economic, efficient and effective operations and safeguarding resources against loss. The wing is headed by the Audit Officer cum Ex-officio Deputy Secretary who is assisted by Internal Audit Officers and Assistant Auditors. No Internal Audit Officer was posted in the IAW against sanctioned strength of 16 posts whereas the existing strength of Assistant Auditor was 11 against the sanctioned strength of 14. Though the manual of the wing has been drafted, it has not yet been published. The wing planned to audit 18 DL and LROs, 10 Land Acquisition (LA) Collectors, one Rent Controller and one Controller of Thika Tenancy out of 18 DL and LROs, 19 LA Collectors, two Rent Controllers and two Controller of Thika Tenancy during the year 2010-11. Audit was conducted in respect of 17 DL and LROs, seven LA Collectors, one Rent Controller and one Controller of Thika Tenancy during the period which is 63 *per cent* of the units auditable and 87 *per cent* of the units planned for audit.

[1] Partly accepted.
[2] Four paragraphs partly accepted.
[3] Partly accepted.
[4] Partly recovered.
[5] One Paragraph partly accepted.

3.6 Results of audit

In 2010-11 we test checked the records of five units relating to receipts from Land Revenue and found non-realisation/blocking of revenue and other irregularities involving ₹ 786.28 crore in 55 cases which fall under the following categories:

(₹ in crore)

Sl. no.	Categories	No. of cases	Amount
1	Irregular conferment of ownership of land to NTC	1	768.65
2	Non-levy/realisation of rent and salami at commercial rate	36	16.92
3	Non-realisation of cess from big raiyats	2	0.05
4	Blockage/loss of revenue due to non-leasing of *sairati* bodies	2	0.02
5	Other cases	14	0.64
Total		**55**	**786.28**

During the year, the department accepted non-realisation/blocking of revenue and other deficiencies of ₹ 9.05 crore in 38 cases. An amount of ₹ 1.34 crore was realised in 14 cases at the instance of audit.

A few illustrative cases involving ₹ 1.27 crore are mentioned in the following paragraphs.

3.7 Audit observations

Scrutiny of the records of the DL and LR offices indicated several cases of non-compliance with the provisions of the West Bengal Land Reforms (WBLR) Act, 1955, West Bengal Land and Land Reforms (WBL and LR) Manual, 1991 and the Cess Act, 1880 as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Although such omissions are pointed out by us every year but not only do the irregularities persist; these remain undetected till we conducted an audit. We also observed the irregular conferment of ownership of government land in favour of National Textile Corporation. There is need for the Government to improve the internal control system so that recurrence of such cases can be avoided.

3.8 Irregular conferment of ownership of land to National Textile Corporation

Rule 266 (v) of West Bengal Land Management Manual, 1977 and Land Transfer Rules as contained in Appendix-L, Part-II of the Bengal Land Acquisition Manual, 1917 read with Government order dated 3 September 1993 and order dated 17 October 2005 prescribe that in case of transfer of land owned by the State Government to the Government of India (GOI) or a company or body corporate under the GOI, transfer value comprising market value and capitalised value equal to 25 times of annual land revenue for outside Kolkata and 20 times of annual land revenue for Kolkata is realisable.

In West Bengal 14 textiles mills were in operation in five[6] districts since pre-independence. Land comprised in these mills was 237.7158 acres. On introduction of the West Bengal Estate Acquisition Act, 1953, all the lands comprised in these mills were vested in the State. Subsequently the mills became sick and were nationalised in 1974 by an Act[7] of the Parliament. The Land and Land Reforms (L and LR) Department allowed the land comprised in the mills to be mutated in favour of NTC by an order issued in July 2000 on the plea that on nationalisation of the sick textile units the Central Government had become the absolute owner of all properties of the nationalised textile units including their land. However, chapter II of the said Act stipulates that the rights, title and interest of the then owners of the sick textile undertakings were acquisitioned and vested absolutely in the Central Government excluding the land comprised in the mills which was owned by the State Government. Subsequently NTC sold 169.729 acres of land between August 2006 and August 2009 to private parties. Thus, there was irregular conferment of ownership of 237.7158 acres of land to the NTC violating the land transfer Rules.

We forwarded the case to the Department and the Government in February 2011, but they did not furnish any reply (October 2011).

[6] Hooghly, Howrah, Murshidabad, Nadia and North 24 Parganas.
[7] The Sick Textile Undrertakings (Nationalisation) Act, 1974.

3.9 Non/short realisation of rent and cess on land used for commercial purpose

Section 23 of the West Bengal Land Reforms (WBLR) Act, 1955 provides that *raiyats* using land for commercial purposes are liable to pay land rent at the prescribed rate. Different kinds of cess are also realisable on land rent payable by the *raiyats*. The *bhumi sahayaks* posted in the Revenue Inspectors' office under the BL and LR office are responsible for collection of land rent. Further, Rule 303 of the WBL & LR Manual, 1991 stipulates that interest will be charged at the rate of 6.25 *per cent* per annum on arrears of land revenue and cess. As per Land and Land Reforms Manual, 1991 tenants' ledger was required to be maintained by each BL and LR office.

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We found from the Register of payment of revenue and rent receipt books in four[8] DL and LR offices between September and December 2009 that 352 *raiyats*[9] under 18 BL and LR offices used 575.49 acres of land for commercial purposes during the period between 1411 BS (2004-05) and 1415 BS (2008-09) of which 340 *raiyats* did not pay land rent and cess[10] of ₹ 54.61 lakh for using 449.048 acres of land whereas 12 *raiyats* using 126.44 acres of land paid rent and cess of ₹ 2.95 lakh instead of ₹ 10.76 lakh. The DL and LROs did not initiate any action to realise the dues even after lapse of five to 53 months. We also noticed that the tenants' ledger was either not maintained or maintained improperly. As a result the rent due and demand notice issued could not be monitored. This resulted in non/short realisation of revenue of ₹ 71.44 lakh including interest.

After we reported the cases, all the district authorities between September and December 2009 admitted the audit observations involving ₹ 69.57 lakh in respect of 344 *raiyats* but did not furnish report on realisation. In respect of the remaining eight *raiyats* involving ₹ 1.87 lakh, the DL and LRO, Malda did not furnish any specific reply (October 2011).

The Government stated in June 2011 that ₹ 7.26 lakh has been realised by three DL and LROs[11]. Action taken by the DL and LRO, Malda and further report on realisation of the balance amount from other DL and LROs has not been received (October 2011).

[8] Burdwan (East), Jalpaiguri, Malda and Purulia.

[9] *Raiyat* means a person or an institution holding land for any purpose.

[10] Road cess 6 paise, public works cess 25 paise, primary education cess 10 paise, rural employment cess 30 paise and surcharge 15 paise.

[11] Burdwan (East), Jalpaiguri and Purulia.

3.10 Non-realisation of lease rent due to non-settlement of *sairati*[12] interest

Rule 272 of the WBL and LR Manual, 1991 prescribes that, all *sairati* interests like fisheries, *khal* etc. should be leased out on a year to year basis but not exceeding seven years. The Collector of the district is required to fix the economic rent and realise 25 *per cent* thereof at the time of settlement of *sairati* interests and the balance before the beginning of the year. The rent for the successive years is to be deposited by the lessee in full before the beginning of the respective year and a lease agreement executed beforehand. The district offices are required to maintain Registers VI and VII for credit of revenue from fisheries and Register XII for its settlement.

We found in two[13] DL and LR offices between June and August 2009 that 12 water bodies[14] involving 478.64 acres were leased out to different fisherman co-operative societies. Though the validity of the lease agreements had expired between 2001-02 and 2008-09 the co-operative societies continued to occupy the water bodies without paying any rent. The district authorities failed to settle the water bodies afresh by calling tenders. Consequently the water bodies remained unsettled for the period between 2001-02 and 2008-09 and Government suffered a loss of revenue of ₹ 3.91 lakh. Further we found in September 2009 that eight water bodies involving 428.50 acres in DL and LRO, Malda were leased out between 2006-07 and 2009-10. But the district authority did not raise any demand notice for payment of lease rent. As a result the lease rent of ₹ 10.96 lakh continued to remain unrealised. We also noticed that the prescribed registers were not maintained properly. As a result the district authorities were not in a position to watch the revenue realised from fisheries and its pending settlement. Thus, failure of the internal control mechanism resulted in loss/non-realisation of revenue of ₹ 14.87 lakh including interest.

After we pointed these out, the district authorities between August and September 2009 admitted the audit observation and stated that action would be taken to realise the dues but did not furnish report on realisation (October 2011).

The Government stated between June and September 2011 that ₹ 1.01 lakh had been realised in two cases by DL and LROs, Nadia and Coochbehar. Report on realisation of balance amount and action taken by DL and LRO, Malda has not been received (October 2011).

[12] Derived from the word sair. The duties which the owners of hat, bazaar, markets, ferries, fisheries etc. used to levy on commodities sold or benefits derived from those places were designated as sair collection. Such hat, ferries etc. are *sairati* interests.
[13] Coochbehar and Nadia.
[14] Water bodies means large water channels.

3.11 Non-settlement of land with unauthorised occupiers

Rule 238 of the WBL and LR Manual, 1991 provides that Government land remaining in possession of a person(s) without any lease, may be offered to such person(s) on long term settlement for non-agricultural purpose on realisation of rent and *salami* at the prescribed rates. Rule 225 of the said Manual prescribes that the procedure of long term settlement is to be completed by the department within five months from the date of its initiation.

We found in BL and LR office, Malda in September 2009 that in two cases 0.83 acres of land remained unauthorisedly occupied by two individuals since 1981. The occupiers between July 2006 and September 2008 applied for long term settlement of land for 30 years. However, the Department did not finalise the long term settlement even after lapse of 12 to 36 months. Of these, one case was forwarded to DL and LRO, Malda in October 2008 and the other case in March 2009. The stage at which both the cases were pending could not be ascertained due to non-availability of required information from the relevant records. Thus, failure of the Department to settle the land with unauthorised occupiers within the prescribed time limit resulted in non-realisation of revenue of ₹ 11.18 lakh (Rent: ₹ 3.73 lakh and *Salami*: ₹ 7.45 lakh).

After we pointed these out, the DL and LRO, Malda in September 2009 admitted the audit observation in both the cases and stated that action would be taken to realise the dues but did not furnish report on realisation (October 2011).

The Government stated in June 2011 that in one case ₹ 3.85 lakh has been realised by DL and LRO, Malda but did not furnish report on action taken in the remaining case (October 2011).

3.12 Non/short realisation of land revenue from *Raiyats*

Sections 22 & 23 of the West Bengal Land Reforms (WBLR) Act, 1955 provide that a *raiyat* using a plot of land shall pay land rent at the prescribed rate and rent is payable yearly according to the Bengali calendar year which falls due on the last day of the year in respect of which it is paid. Different kinds of cess and surcharge at the rate of 86 paise per rupee of land rent is also realisable. Cess at the rate of 41 paise per rupee of land rent is also payable by the raiyats exempted from paying land rent. In case of default in payment of land rent and cess within the prescribed date, the *raiyats* are liable to pay, in addition to the arrear of rent and cess, interest at the rate of 6.25 *per cent* per annum. *Bhumi sahayaks* posted in the Revenue Inspectors' office are responsible for collection of land rent and cess etc.

Further, Rule 482 of the WBL & LR Manual provides that every BL and LR office will maintain Register-II containing the names of the tenants, their status, their land revenue/ rent, surcharge, cesses, the area and the class of land they hold. This register is required to be reviewed from time to time to assess the land revenue realisable from different *raiyats*.

3.12.1 We found in three[15] DL and LR offices between November and December 2009 that 965 big *raiyats*[16] under nine BL and LR offices did not pay the land rent and cess for 7881.44 acres of land used by them for the period between 2006-07 and 2008-09. The district authorities did not initiate any action to issue demand notice against the defaulting *raiyats*.

We scrutinised the Register-II in these BL and LR offices and noticed that the register was either not maintained properly or periodical review was not conducted to ascertain the revenue in arrears. These weaknesses in the internal control mechanism resulted in non-realisation of revenue of ₹ 7.16 lakh.

After we pointed these out, the district authorities between November and December 2009 admitted the audit observation in all the cases and stated that action would be taken to realise the dues, but did not furnish report on realisation.

The Government stated in June 2011 that out of ₹ 2.45 lakh realisable, an amount of ₹ 1.34 lakh has been realised in 121 cases by DL and LRO, Jalpaiguri. Report on realisation of the balance amount and action taken by other DL and LROs has not been received (October 2011).

[15] Burdwan (East), Dakshin Dinajpur and Jalpaiguri.
[16] Big raiyats - holding more than six acres of land.

3.12.2 We found between November and December 2009 in three[17] DL and LR Offices that in 21 BL and LR offices a total area of 1,29,782.01 acres of vested land was distributed among 3,14,420 landless persons on raiyati basis for which pattas[18] were given. These persons were liable to pay cess[19] of ₹ 31.82 lakh on the notional rent of the land for the period between 1413 BS (2006-07) and 1415 BS (2008-09) against which only ₹ 9.96 lakh had been realised. This resulted in short realisation of cess of ₹ 21.86 lakh.

After we reported the cases, all the district authorities admitted the audit observations between November and December 2009 and stated that action would be taken to realise the dues but did not furnish report on realisation of cess (October 2011).

The Government stated in June 2011 that out of ₹ 4.39 lakh realisable, an amount of ₹ 3.35 lakh has been realised by DL and LRO, Jalpaiguri. Report on realisation of the balance amount and action taken by other DL and LROs has not been received (October 2011).

[17] Dakshin Dinajpur, Jalpaiguri and Uttar Dinajpur.
[18] A document evidencing lawful possession of land by a person.
[19] Road cess 6 paise, public works cess 25 paise and primary education cess 10 paise = 41 paise.

EXECUTIVE SUMMARY	
Increase in tax collection	In 2010-11 the collection of taxes from Excise Department increased by 23.51 *per cent* over the previous year which was attributed by the Department to increase receipts of excise duty on account of intensive and continuous preventive operation as well as imposition of various restrictions, introduction of advalorem duty structure in foreign liquor and increase of initial grant fee, security deposit etc.
Internal Audit not conducted	Internal Audit Wing of the Excise Department has 23 auditable units but since 2006 the wing has not audited even a single unit. The reason behind this has been attributed to shortage of staff. Moreover, the Department has not prepared its manual also.
Very low recovery by the Department against observations pointed out by us	During 2006-07 to 2010-11, we had pointed out non/short levy, non/short realisation, underassessment /loss of revenue etc. with revenue implication of ₹ 365.82 crore in 29 paragraphs. Of these, the Department accepted audit observations in 16 paragraphs involving ₹ 113.94 crore of which only an amount of ₹ 0.63 crore has been recovered by the Department.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of 11 units relating to receipts from Excise Department and found underassessment of tax and other irregularities involving ₹ 389.66 crore in 97 cases. The Department accepted underassessment and other deficiencies of ₹ 113.09 crore in 23 cases of which 22 cases involving ₹ 113.08 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. An amount of ₹ 2.10 lakh has been realised in three cases during the year 2010-11.
What we have highlighted in this Chapter	In this Chapter we present a performance audit on 'Assessment, Levy and Collection of Excise Duty and Fees' with a financial effect of ₹ 293.85 crore. We have highlighted the following points in the chapter:

	(i) Absence of provision of allowable transit and handling wastages of spirit for foreign liquor (FL) manufactories resulted in undue benefit of ₹ 7.78 crore. (ii) Absence of provision for imposition of late fee for delayed renewal of FL licenses led to non-realisation of excise revenue of ₹ 46.01 lakh. (iii) Short yield of beer by 114.35 lakh BL resulted in non-realisation of excise duty of ₹14.87 crore. (iv) Failure of the Department to monitor and supervise the accounts of consumption of molasses resulted in non-realisation of excise duty of ₹ 206.62 crore. (v) Failure of the Department to detect transportation of molasses without/with expired transit pass led to non-imposition of maximum penalty of ₹ 17.56 crore.
Our conclusion	**We noticed a number of system and compliance deficiencies in functioning of the Excise Department in respect of assessment and collection of excise revenue. Absence of some of the provisions in the Acts and Rules governing the function of the Department, adversely affected the collection of revenue. There was also lack of monitoring and supervision in respect of implementation of the molasses notified orders, 1986.** **The Department should develop a strong internal control system to check the deficiencies and lapses in implementation of the various provisions of the Acts/Rules so that the revenue receipts due to the Government are collected forthwith.**

CHAPTER IV : STATE EXCISE

4.1 Tax administration

State Excise revenue mainly comprises the receipts from the country spirit, foreign liquor, malt liquor, other spirits, fees and fines. The assessment and collection of excise revenue is governed by the Bengal Excise Act, 1909, the West Bengal Excise (Foreign Liquor) Rules, 1998, the Narcotic Drug and Psychotropic Substances Act, 1985, the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 and the West Bengal Molasses Control Act 1973. The Excise Department is headed by the Principal Secretary who is assisted by the Excise Commissioner, Additional Excise Commissioner, four Deputy Excise Commissioners, three Special Superintendents of Excise, two Collectors of Excise and 19 Superintendents of Excise.

4.2 Trend of revenue receipts

The position of revenue realised from the State Excise duty during the last five years from 2006-07 to 2010-11 was as under:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess(+)/ shortfall(-)	Percentage of variation
2006-07	869.95	817.36	(-) 52.59	(-) 6.05
2007-08	1,017.66	935.46	(-) 82.20	(-) 8.08
2008-09	1,115.42	1,082.94	(-) 32.48	(-) 2.91
2009-10	1,338.50	1,443.81	(+) 105.31	(+) 7.87
2010-11	1,759.78	1,783.34	(+) 23.56	(+) 1.34

Our analysis of the performance of the Department during the period 2006-07 to 2010-11 indicated that though the Department could not achieve the targets fixed during 2006-07 to 2008-09, however, the Department's overall performance has been consistent in achieving the targets as the variations were confined to below nine *per cent*.

4.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 10.12 crore of which ₹ 5.40 crore was outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2006-07 to 2010-11.

(₹ in crore)

Year			collected during the year	Closing balance of arrears
2006-07	12.34	3.54	NIL	15.88
2007-08	15.88	NIL	0.81	15.07
2008-09	15.07	NIL	4.57	10.50
2009-10	10.50	3.46	NIL	13.96
2010-11	13.96	NIL	3.84	10.12

Arrears of revenue have come down to ₹ 10.12 crore in 2010-11 and which was the lowest in the last five years. Although the Government has taken steps in collection of arrear revenue but they should be more active to collect the arrear revenue.

4.4 Cost of collection

The gross collection of Excise Revenue and the expenditure incurred on collection during the years 2008-09 to 2010-11 are given in the following table:

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage in the preceding years
State Excise	2008-09	1,082.94	65.76	6.07	3.27
	2009-10	1,443.81	77.99	5.40	3.66
	2010-11	1,783.34	92.43	5.18	3.64

Source: Finance Accounts.

Though the percentage of expenditure on collection of excise revenue has steadily come down from 6.07 *per cent* in 2008-09 to 5.18 *per cent* in 2010-11 but total expenditure on collection has steadily grown up from ₹ 65.76 crore to ₹ 92.43 crore during the same period. It was also higher than the percentage of all India average of preceding years. Thus there is scope for the Government to improve the efficiency of collection.

4.5 Revenue impact of audit reports

During the last five years (including the current year's report), through our audit reports we had pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc., with revenue implication of ₹ 365.82 crore in 29 paragraphs. Of these, the Department/Government had accepted audit observations in case of 16 paragraphs involving ₹ 113.94 crore and had since recovered ₹ 63 lakh. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted by the Departments		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	14	37.69	7[1]	27.02	2	0.06
2007-08	4	11.13	2[2]	0.27	1	0.23
2008-09	6	20.66	3[3]	0.73	2	0.32
2009-10	4	2.49	3	0.86	1[4]	0.02
2010-11	1	293.85	1[5]	85.06	NIL	NIL
Total	**29**	**365.82**	**16**	**113.94**	**6**	**0.63**

Against the revenue effect of ₹ 113.94 crore of the audit observations accepted by the Department, the actual recovery was very low, amounting to only ₹ 63 lakh (0.55 *per cent*).

The Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.

4.6 Results of audit

In 2010-11 we test checked the records of 11 units relating to excise receipts and found underassessment of tax and other irregularities involving ₹ 389.66 crore in 97 cases which fall under the following categories:

(₹ in crore)

Sl. no.	Categories	No. of cases	Amount
1	**Assessment, levy and collection of excise duty and fees (A performance audit)**	**1**	**293.85**
2	Non/short realisation of excise duty due to short yield of alcohol/beer	4	16.90
3	Non/short levy of excise duty, wastage fee on chargeable wastage of rectified spirit/India made foreign liquor	10	10.31
4	Non/short realisation of privilege fee, additional fee, pass fee etc.	13	4.58
5	Other cases	69	64.02
Total		**97**	**389.66**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 113.09 crore in 23 cases, of which 22 cases involving ₹ 113.08 crore were pointed out in audit during the year 2010-11 and the rest

[1] Out of seven, two paragraphs are partly accepted.
[2] All are partly accepted.
[3] Out of three, one partly accepted.
[4] Partly accepted.
[5] Partly accepted.

in earlier years. An amount of ₹ 2.10 lakh was realised in three cases during the year 2010-11.

A performance audit on **'Assessment, Levy and Collection of Excise Duty and Fees'** with a financial effect of ₹ 293.85 crore is mentioned in the following paragraph.

4.7 Performance audit on 'Assessment, levy and collection of Excise Duty and Fees'

Highlights

- Absence of provision of allowable transit and handling wastages of spirit for Foreign Liquor (FL) manufactories resulted in undue benefit of ₹ 7.78 crore.

(Paragraph 4.7.7)

- Absence of provision for imposition of late fee for delayed renewal of FL licenses led to non-realisation of excise revenue of ₹ 46.01 lakh.

(Paragraph 4.7.9)

- Short yield of beer by 114.35 lakh BL resulted in non-realisation of excise duty of ₹ 14.87 crore.

(Paragraph 4.7.11)

- Failure of the Department to monitor and supervise the accounts of consumption of molasses resulted in non-realisation of excise duty of ₹ 206.62 crore.

(Paragraph 4.7.16)

- Failure of the Department to detect transportation of molasses without/ with expired transit pass led to non-imposition of maximum penalty of ₹ 17.56 crore.

(Paragraph 4.7.24)

4.7.1 Introduction

State Excise is one of the most important sources of revenue of the State. It comprised 8.44 *per cent* of the total revenue raised by the Government of West Bengal during 2010-11. The assessment, levy and collection of excise duty and other excise receipts on production, possession, sale, export, import and transport of liquor or intoxicating drug are governed by the Bengal Excise (BE) Act 1909, rules made thereunder and notifications issued by the Government from time to time.

In West Bengal, liquor is generally produced from the molasses and grains. The control of production, distribution, supply and price of molasses produced by the distilleries in the State is regulated by the West Bengal Molasses Control (WBMC) Act, 1973.

There is one distillery company[6] in the State producing rectified spirit (RS) from molasses and grains. Besides, there are 15 foreign liquor (FL) manufactories, 14 country spirit (CS) manufactories, two coloured and/or flavoured spirit (C&FS) manufactories and 56 FL bonded warehouses cum trade. There is also one chemical examination laboratory to analyse the samples of molasses and intoxicants.

[6] M/s IFB Agro Industries Ltd., Noorpur, South 24 parganas.

We reviewed the functioning of the State Excise Department for the period from 2005-06 to 2009-10. It revealed a number of system and compliance deficiencies which are mentioned in the succeeding paragraphs.

4.7.2 Organisational Set up

The assessment, levy and collection of excise revenue are administered by the Secretary, Excise Department. The Excise Commissioner (EC) is the head of the Excise Directorate. He is assisted by one Additional Commissioner, 15 Deputy Commissioners and 34 Superintendents of Excise (SE). At the district level, the SE functions under the Collectors of the concerned districts except in Kolkata where the Collector of Excise is the district excise authority. Deputy Excise Collectors (DEC) under the control of the SEs are posted at the distilleries, bottling plants, manufactories, bonded warehouses and other units for supervision, levy and collection of excise duties and fees.

4.7.3 Audit objectives

We conducted the performance audit with a view to ascertain:

- the adequacy and sufficiency of the provisions of the Acts and Rules with a view to safeguard the interest of the excise revenue;
- compliance with the provisions of the Act, rules and notifications thereof;
- whether follow up action in case of default was adequate; and
- whether the internal control system of the Department is efficient and effective.

4.7.4 Scope and methodology of audit

We conducted the performance audit between November 2010 and March 2011, covering the period from 2005-06 to 2009-10. The performance audit was conducted in nine[7] out of 21 excise districts selected on the basis of stratified random sampling method. We divided the 21 units in three strata on the basis of collection of revenue and selected 100 *per cent* i.e. four[8] units from the first stratum, 50 *per cent* i.e. four[9] units from the second stratum and 10 *per cent* i.e. one[10] unit from the third stratum.

In the performance audit, we test checked the records of the sole distillery company, 15 FL manufactories, eight CS manufactories, one C & FS manufactory and 40 FL bond cum trades of the selected units.

4.7.5 Acknowledgement

We acknowledge the co-operation of the Excise Department in providing necessary information and records. Before taking up the performance audit we had organised an entry conference in November 2010 which was attended by

[7] Kolkata (South), Kolkata (North), Hooghly, South 24 Parganas, Nadia, Burdwan (West), Purba Medinipur, Jalpaiguri and Howrah.
[8] Burdwan (West), Hooghly, Kolkata (South) and South 24 Parganas.
[9] Howrah, Jalpaiguri, Kolkata (North) and Nadia.
[10] Purba Medinipur.

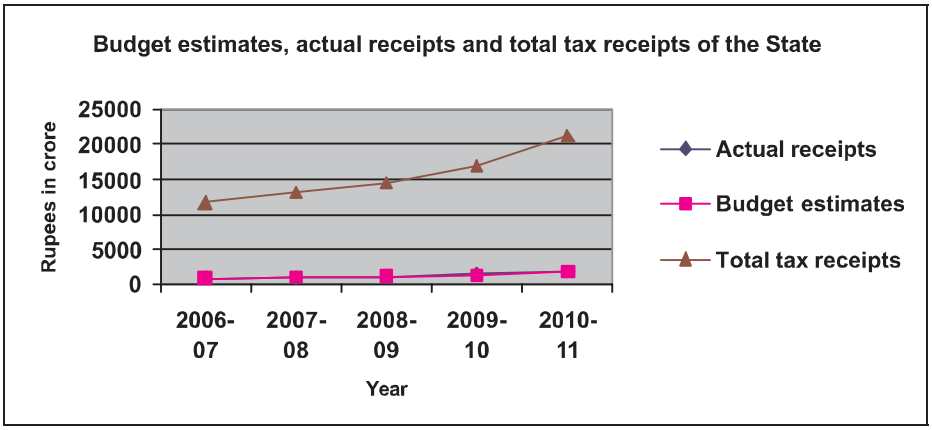
the Addl. Commissioner wherein the scope and methodology was explained to the Department. An exit conference was held in June 2011. The Excise Commissioner represented the Department. The views of the Department have suitably been incorporated in relevant paragraphs.

4.7.6 Trend of receipts

Actual receipts from State Excise during the years 2006-07 to 2010-11 along with the total tax receipts during the 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	869.95	817.36	(-) 52.59	(-) 6.05	11,694.77	6.99
2007-08	1,017.66	935.47	(-) 82.19	(-) 8.08	13,126.33	7.13
2008-09	1,115.42	1,082.94	(-) 32.48	(-) 2.92	14,419.15	7.51
2009-10	1,338.50	1,443.81	(+) 105.31	(+) 7.87	16,899.98	8.55
2010-11	1,759.78	1,783.34	(+) 23.56	(+) 1.34	21,128.74	8.44



The percentage of variation between the budget estimates and actual receipts were between (-) 8.08 *per cent* and (+) 7.87 *per cent* during 2006-07 and 2010-11.

A study of the budget estimates vis-à-vis actual receipts showed that the gap between the budget estimates and actual receipts had narrowed in 2008-09 and thereafter the actual receipts exceeded the estimates. This indicates a good tax administration and realistic budget preparation.

Audit findings

System deficiencies

4.7.7 Discrepancy in allowable wastages of spirit between CS and FL manufactories

Rule 28 and 38 of the Consolidated Rules, 1915 and Rule 32 and 42 of the West Bengal Excise (Foreign Liquor) WBE (FL) Rules, 1998 prescribe the allowable transit and handling wastages of spirit to the CS and FL manufactories respectively. Upto October 2008, the allowable transit wastage and handling wastage of spirit in respect of CS and FL manufactories were the same. By an amendment w.e.f. October 2008, these wastages were lowered for CS manufactories but no amendment has yet been made for FL manufactories.

We found from the Registers of receipt of spirit (Register 76) maintained in ten[11] FL manufactories of four[12] districts (out of 15 FL manufactories test checked) that wastages of 1.11 lakh LPL[13] was allowed against the allowable transit wastage of 30,183 LPL on 3.53 crore LPL spirit transported during the period from October 2008 to March 2010. It was in excess of 80,469 LPL in comparison to transit wastage allowable to CS manufactories.

Further, we found from the stock taking report of the FL manufactories that handling wastages of 5.71 lakh LPL was allowed against the allowable wastage of 2.33 lakh LPL for handling 9.30 crore LPL of spirit during the period 2008-09 and 2009-10 which was in excess of 3.38 lakh LPL in comparison to handling wastage allowable to CS manufactories.

Though both the CS and FL manufactories use the same mode of transport and handling, due to non amendment of rule for FL manufacturing they enjoy more transit/handling wastages than CS manufactories. This resulted in undue allowance of excess wastage of 4.18 lakh LPL of RS and consequent undue benefit of ₹ 7.78 crore to the FL manufactories.

After we pointed this out, the Department admitted (August 2011) the audit observation and agreed to take steps for amendment in the relevant provisions of the rule.

[11] M/S Mahestala Drinks Pvt. Ltd., M/S IFB Agro Industries Ltd. Mahestala, M/S United Spirits Ltd, Asansol, M/S NC Shaw & Company, M/S Prasant Impex Private Limited, M/S Passion beverages private limited, M/S IFB Agro Industries Limited, Hooghly, M/S United Spirit Limited (IMFL) Serampore Unit, M/S United Spirit Limited (IMFL) Bhadrakali and M/S United Spirit Limited (Distillery unit), Serampore.

[12] South 24 Parganas, Burdwan (West), Kolkata (South) and Hooghly.

[13] London Proof Litre (LPL) means the strength or proof as ascertained by means of Sykes Hydrometer and denotes that spirit which at the temperature of 51 degree Fahrenheit weighs exactly 12/13 part of an equal measure of distilled water.

The Government may consider amending the relevant provisions of the WBE (FL) Rules, 1998 to remove the disparity of transit/handling wastages between the two types of manufactories.

4.7.8 Absence of provision for levy of interest for delayed payment of excise dues

The Bengal Excise Act, 1909 does not provide for levy of interest for non/ delayed payment of excise dues.

We found from the Demand and Collection Registers of two[14] out of five foreign liquor bonded warehouses under the SE, Burdwan (West) that the licensees made payment of excise duty of ₹ 56.11 lakh between July, 2007 and August, 2009 after a delay ranging between 14 and 71 months from the date of issue of demand notices. In absence of provisions for levy of interest in the BE Act, interest of ₹ 18.68 lakh[15] could not be levied for delayed payment of excise dues.

The Public Accounts Committee in its 22nd Report submitted to the legislature on 17 April 1995 had recommended for introducing the interest and penalty clauses in the relevant Act to prevent delay in payment. A similar observation was also featured in the Audit Report (Revenue Receipts) for the year ended 31 March 2003. However, the Department has not taken any action despite the fact there was a recommendation from the PAC.

After we pointed this out, the Department admitted (August 2011) the audit observation and agreed to take steps for amendment in the relevant provisions of the rules but did not furnish report on further developments (October 2011).

The Government may consider levying interest for delayed payment of excise duties by amending the relevant provisions of the Act/Rules.

[14] M/S Johal & Co. Pvt. Limited and M/S United spirits Limited.

[15] Calculated at the rate of 18 *per cent* per annum as prescribed under the Andhra Pradesh Excise (Levy of Interest on Government Dues) Rules, 1982.

4.7.9 Absence of provision for realisation of late fee for delay in renewal of licence

As per Rule 21 of the West Bengal Excise (Grant of Licence for the Manufacture of Labelled and Capsuled Bottles of Country Spirit and Sale by Wholesale) Rules, 1998, late fee at the rate of ₹ 300 per *diem* is realisable for delay in application for renewal of licence.

However, there is no provision for realisation of late fee under the FL Rules, 1998 if the licensee for manufacture of FL applies for renewal of licence after the date of its expiry.

We found from the licence renewal files and relevant challans in the offices of the DECs in charge of four[16] out of eight test checked FL manufactories that the licensees did not pay requisite fees for renewal of different licences as mentioned in **Annexure-II** of the report.

The licences were irregularly renewed by the concerned Collectors for the said periods without realisation of the requisite licence renewal fees. Since there is no provision for charging of late fee for delay in application for renewal of licence in the case of FL manufacturers, the Department could not charge late fee of ₹ 46.01 lakh.

After we pointed this out, the Department admitted (August 2011) the audit observation and agreed to take necessary action but did not furnish report on further action taken (October 2011).

The Government may consider levy of late fee for delay in application for renewal of FL manufactory licence.

4.7.10 Non-realisation of excise duty on issue of over/under strength foreign liquor

Rule 41 of the WBE (FL) Rules, provides that all potable foreign liquor shall be manufactured at the strength prescribed under the rules subject to an allowable limit of variation of 0.2^0 proof on either side. The samples of the FL are sent to the CE for determination of strength of the FL. If the report of the 'CE' shows any variation from the prescribed strength beyond the allowable limit, the manufacturer shall pay on demand the excise duty on the excess quantity of spirit used in manufacture. However, there is no such provision for levy of duty on issue of under strength FL.

4.7.10.1 We found from the Report of the CE in the office of the DEC in charge of a foreign liquor manufactory (M/s United Spirits Ltd. at Bhadrakali) that the licensee produced 1,328 batches of foreign liquor in 2003-04 and 2004-05. As per the Bottling Register, those 431 batches of FL were of strength of 75^0 proof. As per the

[16] IFB Agro Industries Ltd., Mahestala, Madhusala Drinks Pvt. Ltd. Budge Budge in South 24 Parganas, United Spirits Limited in Asansol and Hooghly.

CE's report received between January 2006 and October 2009, spirit of these batches was of over strength ranging between 0.3° and 1.4° proof. Thus, the manufacturer was liable to pay excise duty for issue of excess quantity of spirit which was neither levied nor realised till the date of audit. This resulted in non-realisation of excise duty of ₹ 46.55 lakh.

4.7.10.2 We found from the report of the CE in the office of the DEC in charge of a foreign liquor manufactory (M/s N.C Shaw Beverages Pvt. Ltd., Kolkata) that the manufactory produced 1,505 batches of FL during 2005-06 to 2009-10, out of which chemical examination reports were received in case of 79 batches after a delay ranging between 15 and 23 months. We noticed in 33 batches that the licensee produced FL below the alcoholic strength ranging between 0.3 degree and 4.7 degree proof than the prescribed strength of 75 degree proof during 2005-06 to 2009-10. The licensee used 4.84 lakh LPL spirit for production of FL of the prescribed strength in those batches. However, actual spirit utilisation based on CE's report was 4.81 lakh LPL. Thus, the actual consumption of spirit was less by 2,817 LPL which should have been shown in the closing stock. However, this was not reflected in the closing stock. Thus, differential quantity of spirit has been consumed for which excise duty was leviable but not levied. This resulted in non-realisation of excise duty of ₹ 5.24 lakh.

After we pointed these out, the Department admitted (August 2011) the matter and agreed to realise the revenue but did not furnish report on realisation (October 2011).

Compliance deficiencies

4.7.11 Non-realisation of excise duty due to short production of beer

Para 677(17) of the Manual of Excise and Salt Department, 1918 prescribes that 15.42 kg of malt, 14.52 kg of rice flake and 12.70 kg of sugar would produce 81.823 bulk litre (BL) of wort. Under the WBE(FL) Rules, the minimum yield of beer should be 92 *per cent* of wort accepted for fermentation.

We found from the Brewing Book and Annual Stock Taking Reports of the DEC in charge of a brewery (M/s United Breweries Ltd, Kalyani), that the brewery consumed 87.07 lakh kg of malt, 44.42 lakh kg of rice flakes and 13.87 lakh kg of sugar and produced 680.58 lakh BL of wort during the period from 2008-09 to 2009-10. However, as per norms in the Excise Manual, the average yield should have been 801.70 lakh BL of wort. Shortfall of wort by 121.12 lakh BL resulted in short yield of 114.35 lakh BL of beer considering average distillation efficiency of 94.41 *per cent* involving excise duty of ₹ 14.87 crore as shown in **Annexure - III.**

After we pointed this out, the Department did not furnish any specific reply.

4.7.12 Non-realisation of registration fees

Rule 118 of the WBE (FL) Rules, 1998 provides for registration of brand names and labels of different measures of FL lying unsold in the bonded warehouse prior to 4 May 2007. Registration is valid for a period not exceeding one year from April to March. Fees for grant of label registration will be charged at the rates prescribed from time to time.

We found from the brand wise stock register and other relevant records of M/s Johal & Co. Ltd, Asansol (a foreign liquor bonded warehouse) that 73 brands and labels of 119 measures of foreign liqour were lying in the licensee's bonded warehouse during 2004-05 to 2006-07 after expiry of their registration. The brands and labels were liable to be registered but the Department did not initiate any action to get them registered on realisation of the registration fees. Thus, inaction on the part of the Department resulted in non-realisation of registration fees of ₹ 1.07 crore.

After we pointed this out, the Department admitted the audit observation (August 2011) and agreed to realise the registration fees.

4.7.13 Non-realisation of fee due to non-destruction of unsold stock of expired beer

Rule 241(1) of the WBE (FL) Rules provides that with effect from 4 May 2007, the licensee shall forthwith intimate the Collector for destruction of the FL lying unsold in any licensed premise after the period indicated as "best for use" in the label of the bottle.

Further, the licensee shall pay a fee at the rate of ₹ 2 per BL per diem on such stock for the period from the date on which the foreign liquor ceased to be best for use till the date of intimation to the Collector.

We found from the daily register of trade (Register 915) in the office of the DEC in charge of a foreign liquor trade licensee[17] that the licensee had unsold stock of 1,172.60 BL of expired beer on 30 November 2007 with the month of manufacture as February 2007 and it was expected to be used before nine months from the month of manufacture. The licensee was required to apply to the Collector, Howrah for destruction of the same on 01 December 2007 but he did not apply till March 2010. However, the licensee had sold 134 bottles of expired beer and destroyed the remaining stock without approval of the excise authority. This resulted in non-realisation of fee of ₹ 19.98[18] lakh for the period from December 2007 to March 2010.

[17] M/S United Wines, Howrah.

[18] 1,172.60 BL x ₹ 2 x 852 days = ₹ 19.98 lakh.

Besides chances of health hazards due to consumption of expired beer could not be ruled out.

After we pointed this out, the Department stated (August 2011) that the matter was pending before the Hon'ble High Court against the judgment of the West Bengal Taxation Tribunal in case No. RN 351 of 2007. The reply is not tenable as the said case was related to the realisation of establishment fee under the provision of Rule 23 and removal of FL from bonded warehouse to trade after expiry of one year as per Rule 241 (2) of the WBE(FL) Rules which is not at all related with the Rule 241(1) of the said Rules.

4.7.14 Irregular allowance of wastage of spirit in transit in plastic container

Rule 32(1) of the West Bengal Excise (Foreign Liquor) Rules, 1998 provides allowance for loss in transit by leakage and evaporation of spirits in wooden or metal vessels during transport of spirit. However, no transit loss is allowable on foreign liquor in glass bottles or other approved materials as per Rule 31 of the said Rules. Excess wastage in transit is chargeable to duty at the rate of ₹ 186 per LPL

We found from the records of the DEC in charge of a foreign liquor manufactory, (M/S N. C Shaw & Co. Beverages Pvt. Ltd, Kolkata) that the licensee imported 5.65 lakh LPL High Bouquet Spirit (HBS) in plastic drums from M/s Seagram India Pvt. Ltd, Bicholim and M/s Pernod Ricard India Private Limited, Goa during May 2007 to March 2010. However, the excise officer allowed transit wastages of 4,060 LPL as applicable to the wastage of spirit imported in metal vessels. This resulted in irregular allowance of transit wastage and consequent non-realisation of excise duty of ₹ 7.55 lakh.

After we pointed this out, the Department stated (August 2011) that the matter was under consideration of the Government.

The Government stated in September 2011 that development in this context would be communicated in due course but did not furnish report on further development (October 2011).

4.7.15 Excess transit wastage of molasses

Paragraph 11(4) (d) of the West Bengal Molasses Control (Regulation, Storage and Transport) Notified Order, 1986 provides that if the loss or wastage of molasses in transit exceeds one *per cent,* the licensee is liable to pay penalty at the prescribed rates.

We found from the molasses receipt register in the office of the DEC in charge of a distillery that in 106 consignments the distiller received 1,713.77 MT of molasses against the advised quantity of 1,760.27 MT during April 2007 to May 2008. The quantity of molasses was received short by 46.5 MT which

exceeded allowable transit wastage of 17.60 MT[19] for which maximum penalty of ₹ 31.75 lakh though leviable was not levied.

After we pointed this out, the Department agreed (August 2011) to take necessary action against the licensee.

4.7.16 Non/short accounting of consumption of molasses resulting in non-realisation of duty

We found from the information furnished by the DEC in charge of a distillery[20] that the distillery consumed 3.91 lakh MT molasses for production of RS during the period from December 2004 to March 2010. However, the Molasses Consumption Register and the Rectified Spirit (RS) Production Register revealed that 3.87 lakh MT molasses was consumed for production of 15.65 crore LPL RS (average yield of 404.76 LPL per MT) during the same period. Thus, consumption of 3,995.94 MT of molasses was kept out of record.

Further, we found from the 'Register of Receipt and Issue of Way Bills' that the distillery imported 23,448.92 MT of molasses from M/s Tate and Lyle, Thames Silver Tower, London for production of RS during the period between March and June 2005 without no objection certificate (NOC)/permit issued by the EC.

Thus, Government was deprived of excise duty of ₹ 206.62 crore calculated on production of 1.11 crore LPL of RS from consumption of 27,445 MT (3,996 MT + 23,449 MT) of molasses at an average yield of 404.76 LPL/MT.

After we pointed this out, the Department stated (August 2011) that the licensee was asked (June 2011) to produce the relevant records and they sought time to furnish the same.

4.7.17 Non-realisation of excise duty due to transport of spirit without bond

Section 10(a) of the BE Act, 1909 provides that no intoxicant shall be transported unless the duty has been paid or a bond has been executed for the payment thereof. Rule 29 of the Consolidated Rules, 1915 made under Section 86 of the BE Act provides that spirit intended for a warehouse is conveyed thereto under bond and at the sole risk and responsibility of the contractor, distiller or licensee of the warehouse.

We found from the register of receipt of spirit (Register 76) and other relevant records of the DEC in charge of a foreign liquor manufactory that a licensee (M/s N.C Shaw Beverages and Co Pvt. Ltd.) imported 20,000 BL/33,399.23 LPL grain neutral spirit from M/s Chandigarh Distillers & Bottlers Ltd. Banur, Patiala and it was diverted (29 September 2008) to a

[19] One *per cent* of the advised quantity.
[20] M/S IFB Agro Industries Ltd, Noorpur, South 24 Parganas.

foreign liquor manufactory, M/s Essencia Beverages Pvt. Ltd., Howrah as per the EC's order dated 13 April 2009. However, it was noticed that no bond value on the quantity of spirit transported was deducted from the bond register maintained at M/s Essencia Beverages Pvt. Ltd. Thus, the licensee M/S Essencia Beverages Pvt. Ltd. did not discharge the due responsibility of transport of spirit involving excise duty of ₹ 62.12 lakh.

After we pointed this out, the Department stated (August 2011) that the spirit was transported as per the orders of the EC after observing all relevant rules. The reply is not tenable as it was confirmed by the DEC in charge of M/s Essencia Beverages Pvt. Ltd, Howrah that transportation of spirit was made without bond.

4.7.18 Issue of beer without realisation of duty

Rule 114(1) of the WBE (FL) Rules provides that the brewer shall pay duty on beer manufactured only at the time of issue of beer from the brewery.

We found from the annual stock taking reports of the DEC in charge of M/S United Breweries Ltd, Nadia that in 2005-06, the DEC allowed export of 53,220 BL (63,600 bottles each of 650 ml and 36,000 pints each of 330 ml) beer without realisation of duty in contravention of the aforesaid rule. This resulted in non-realisation of excise duty of ₹ 6.92 lakh.

After we pointed this out, the Department stated (August 2011) that there was provision for issue of beer under bond (without realisation of duty) vide notification no. 447 Ex dated 26 July 1999 effective from 1 September 1998. The reply is not tenable as the said provision is related to the fee for grant of license and fee for storage of beer, which is not at all relevant with the issue of beer under bond.

After we pointed this out, the Government stated in September 2011 that beer is a kind of foreign liquor and its export under bond is permissible under the provisions of WBE(FL) Rules. The reply is not tenable since the Rule *ibid* specifically prohibits transport of beer under bond.

4.7.19 Non-realisation of excise duty and fees due to short issue of beer

Rule 114 of West Bengal Excise (Foreign Liquor) Rules provides that the brewer shall pay duty at the time of issue of beer from the brewery. No beer shall be stored in the brewery unless the fees for storage without pre-payment of duty credited and accounted for in the personal ledger account.

We found from the annual stock taking reports, production register and issue register of beer of a brewery (M/s United Breweries Ltd, Nadia) that the brewery produced 2.23 crore bottles and 5.20 crore bottles of beer measuring 650 ml each in the years 2006-07 and 2009-10 respectively. The

stock taking officer found that issue of beer in 2006-07 was 2.03 crore bottles and in 2009-10 the issue was 5.16 crore bottles. However, it was ascertained from the production register, issue register and annual stock taking report of the brewery that the actual quantity of beer liable[21] to be issued was 2.15 crore bottles in 2006-07 and 5.21 crore bottles in 2009-10. Thus, there was discrepancy[22] of 12.21 lakh bottles and 5.18 lakh bottles in issue of beer in the year 2006-07 and 2009-10 respectively. The excise authority was in dark about the discrepancy in issue of beer during those years. This resulted in non-realisation of excise duty and fees of ₹ 1.58 crore (excise duty: ₹ 1.47 crore and fees: ₹ 11 lakh).

After we pointed this out, the Department did not furnish any specific reply.

4.7.20 Internal control mechanism

Internal controls are intended to provide reasonable assurance of orderly, efficient and effective operations, safeguarding resources against irregularities, adhering to laws, regulations and management directives and developing and maintaining reliable data. Effective internal control system is a pre-requisite for efficient functioning of any Department. We noticed the following deficiencies in the internal control mechanism.

4.7.21 Working of internal audit wing

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The internal audit wing of Excise Department was established in the year 1983 with the objectives of having the accounts audited independently so that errors and frauds would be detected in time and action could be taken promptly and effectively upon such detection. The wing is headed by a Deputy Commissioner of Excise (Audit) who is assisted by three Assistant Commissioners of Excise (Audit) and three Auditors. The wing has not yet prepared its manual. The Excise Department has 23[23] auditable units but since 2006 the wing has not audited even a single unit. This was attributed to vacancy in the posts of Deputy Commissioner of Excise (Audit) and Assistant Commissioner of Excise (Audit) since May 2001.

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[21] Quantity of beer liable to be issued = opening stock plus production minus godown breakage minus closing stock.

[22] Discrepancy = Quantity of beer liable to be issued minus quantity of beer actually issued.

[23] Collector of Excise-2, Superintendent of Excise-19, Directorate of Excise-1, Medicine and toilet preparation-1.

4.7.22 Maintenance of correct and true accounts

Paragraph 16 of the West Bengal Molasses Control (Regulation, Storage and Transport) Notified Order, 1986 states that every licensee shall maintain correct and true accounts of the opening stock, quantity received, quantity disposed of and daily closing stock of molasses for each place of his godown in the prescribed Form 'E' and 'F'. In addition, he is required to submit monthly summary returns of transaction of molasses.

We found in the offices of four[24] Superintendent of Excise (SE) that five[25] molasses storage licencees had not maintained the daily accounts of molasses registers in Form 'E' and 'F' during the period from April 2005 to March 2010. They did not submit the monthly summary of return of molasses during those years. Thus, the licencees contravened the provisions of the Notified Order for which their licences were required to be suspended or cancelled. However, neither were their licences cancelled nor was any penalty in lieu thereof levied and realised. This resulted in non-levy of penalty.

After we pointed this out in exit conference, the department agreed to take necessary action against the licensees.

4.7.23 Non-conducting periodical stock taking of molasses at the distillery

Paragraph 13 of the West Bengal Molasses Control (Regulation, Storage and Transport) Notified Order, 1986 provides that the Collector or the Superintendent of Excise shall take an account of the stock of molasses in the first week of March, June, September and December and submit it to the Commissioner.

We found from the DEC in charge of a molasses based distillery M/S IFB Agro Industries Ltd, Noorpur that the Collector or the Superintendent of Excise, South 24 Parganas had not conducted any stock taking in respect of stock of molasses lying with the distillery for the 4th quarter and the annual stock taking for the year 2005-06. No stock taking was also conducted for the 3rd and 4th quarter ending and the annual stock taking for the year 2006-07 and no report in this regard was sent to the EC. The EC did not take any action for non-submission of report by the SE. This resulted in non-compliance of provision of the notified order.

After we pointed this out in exit conference, the department agreed to take necessary action.

[24] Asansol, South 24 Parganas, Nadia and Purba Medinipur.

[25] IFB Agro Industries Ltd, Noorpur, Shyam Ferro Alloys Ltd, Durgapur, Corporate Ispat Alloys Ltd, Durgapur, Philips Carbon Black Ltd, Durgapur and AB Mauri India Pvt Ltd, Kalyani, Nadia.

4.7.24 Transport of molasses without transit pass

Paragraph 7 of the condition of license in Form B granted under the West Bengal Molasses Control (Regulation, Storage and Transport) Notified Order, 1986, as amended from 5 November 2007, prescribes that molasses while transported in West Bengal shall be accompanied by a transport pass (TP). Paragraph 10 of the said condition of licence, as amended from 18 April 2008 prescribes that the licensee shall exercise due diligence in case of import, transport, possession, storage and sale/use of molasses as per the requirements of the West Bengal Molasses Control Act.

We found from the records of two SEs[26], in charge of two[27] molasses storage licensees that the licensees received 1,016 consignments of molasses from Budge-Budge, Bihar and Nepal during 2007-08. The consignments were not accompanied with any TP. Thus, the licensees contravened the conditions of the licence.

We also found that the said two licencees received 678 consignments of molasses from Hilli (Dakshin Dinajpur), Budge-Budge and South 24 Parganas during the period between 2008-09 and 2009-10 after expiry of the validity period of the TPs in contravention of the conditions of the TPs. Thus, the licencees did not exercise due diligence in transporting the molasses. The EC neither suspended or cancelled the licences nor compounded the cases in lieu thereof. This resulted in non-levy of maximum penalty of ₹ 17.56 crore.

After we pointed this out, the Department agreed (August 2011) to take necessary action against the licensees.

Other topics of interest

4.7.25 Payment of molasses transport cost led to undue benefit to a distiller

The BE&WBMC Acts do not provide for payment of molasses transport cost by the State to the distillers who supply rectified spirit distilled by them in West Bengal for the purpose of manufacture of country liquor in the State.

We found that ₹ 83.21 crore was paid by the Department to a distiller (M/S IFB Agro Industries Limited, South 24 Parganas) towards payment of molasses transport cost, against consumption of 3.18 lakh MT of molasses.

Since there is no provision for payment of molasses transport cost in the Acts the payment of ₹ 83.21 crore was irregular.

[26] SEs: Asansol and South 24 Parganas.

[27] M/S IFB Agro Industries Ltd. Noorpur, South 24 Parganas and M/S Shyam Ferro Alloys Ltd., Durgapur.

After we pointed this out, the Department accepted (August 2011) the fact that there was no provision in the Act/Rule for payment of molasses transport cost. However, to keep a control over the retail price of CS the Government was making payment of such cost. The Department added that such payment had been discontinued from November 2010.

4.7.26 Performance of Chemical Examination Laboratory

The Chemical Examination Laboratory was entrusted with the analysis of samples of molasses and intoxicants received from distilleries, manufactories, bottling plants and warehouses including samples sent by different investigating officers as per provisions of the BE Act.

The performance of the Chemical Laboratory regarding testing of samples during the period from 2005-06 to 2009-2010 is shown in the following table:

Year	Opening balance	Samples received	Total samples	Samples analysed	Percentage of shortfall
2005-06	15,284	12,764	28,048	6,434	77.06
2006-07	21,614	11,963	33,577	4,706	85.98
2007-08	28,871	11,464	40,335	3,285	91.86
2008-09	37,050	12,533	49,583	1,614	96.74
2009-10	47,969	13,477	61,446	3,570	94.19

It is evident that the CE laboratory failed to analyse the samples ranging between 77.06 *per cent* and 96.74 *per cent* of samples available for analysis during the period 2005-2010. We also found that not a single sample of molasses was tested out of 898 samples sent to the CE for examination during that period.

4.7.27 Lack of infrastructural facility

a) The sanctioned strength and man-in-position of scientist/examiner/non-technical staff at the chemical examination laboratory during 2005-06 to 2009-10 were as follows:

Year	Scientist/Examiner			Non-technical staff		
	Sanctioned strength	Actual deployment	Percentage of shortfall	Sanctioned strength	Actual deployment	Percentage of shortfall
2005-06	18	8	55.55	53	20	62.26
2006-07	18	7	61.11	53	18	66.04
2007-08	18	6	66.66	53	14	73.58
2008-09	18	5	72.22	53	14	73.58
2009-10	18	6	66.66	53	14	73.58

Thus, it would be evident from above that the laboratory functioned with shortage of technical and non-technical staff ranging between 55.55 and 73.58 *per cent* of the sanctioned strength during 2005-06 to 2009-10.

b) The Chemical Examination Laboratory did not have instruments like Gas Chromatograph, High Performance Liquid Chromatograph and Spectrophotometer etc. for analysis of samples. Besides, the laboratory did not

have sufficient space for storing samples. No action was taken by the Department for procurement of testing instruments and arrangement for proper space for smooth functioning of the laboratory.

After we pointed this out, the Department admitted (August 2011) the audit observation and stated that they had planned to introduce a new system of automated testing facility soon.

4.7.28 Conclusion

We noticed a number of system and compliance deficiencies in functioning of the Excise Department in respect of assessment and collection of excise revenue. Absence of some of the provisions in the Acts and Rules governing the functioning of the Department, adversely affected the collection of revenue. There was also lack of monitoring and supervision in respect of implementation of the molasses notified orders, 1986. The monitoring and supervision of the Department was not adequate resulting in unauthorised transportation of molasses without transport pass.

The Department should develop a strong internal control system to check the deficiencies and lapses in implementation of the various provisions of the Acts/Rules.

4.7.29 Summary of recommendations

The Government may consider taking the following steps to enhance the efficiency and effectiveness of the Excise Department:

- incorporating suitable provisions in the Acts and Rules regarding charging fees on short production of spirit from molasses, charging late fees for delay in application for renewal of licence for foreign liquor manufactories and charging interest for non/delayed payment of excise dues;
- amending the provision of transit and handling wastages of spirit in respect of foreign liquor manufactories to remove the discrepancies of allowable wastages between the CS manufactories and FL manufactories and introduction of minimum penalty for contravention of conditions of license under the BE Act/WBMC Act;
- introducing computerised system of chemical examination of samples to avoid delay and improving the infrastructure in the chemical examination laboratory; and
- strengthening the internal control for effective implementation of Rules and regulations and control over the functioning of the Department.

EXECUTIVE SUMMARY	
Increase in tax collection	Tax collection in respect of Motor Vehicles Taxes for the year 2010-11 increased by 20.87 *per cent* over the previous year which was attributed by the Department as more collection under Central Motor Vehicles Act and State Motor Vehicles Act.
Internal audit not conducted	Transport Department has no Internal Audit Wing. The internal audit branch under the Finance Department conducts internal audit in various Departments. The internal audit branch of the Finance Department did never conduct audit of the Transport Department. As a result internal control failure in several spheres has been noticed by us.
Very low recovery by the Department against observations pointed out by us	During 2006-07 to 2010-11, we had pointed out non/short levy, non/short realisation, underassessment /loss of revenue etc. with revenue implication of ₹ 236.63 crore in 61 paragraphs. Of these, the Department accepted 27 paragraphs involving ₹ 84.44 crore of which only a meagre amount of ₹ seven lakh has been recovered by the Department.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of 13 units relating to Motor Vehicle Tax receipts and found non-realisation/blocking of revenue and other irregularities involving ₹ 97.20 crore in 182 cases. The Department accepted non-realisation/blocking of revenue and other deficiencies of ₹ 60.15 crore in 17 cases, of which 16 cases involving ₹ 59.90 crore were pointed out in audit during 2010-11 and the rest in earlier years. An amount of ₹ 6.82 lakh has been realised in 58 cases at the instance of audit.
What we have highlighted in this Chapter	In this Chapter we pointed out non-maintenance of electronic tax demand register and absence of interlinking between the tables of the computerised system which resulted in non-realisation of tax, additional tax and penalty, non-realisation of special fees etc. in the offices of the Director, Public Vehicles Department, Kolkata Regional Transport Officers and Additional Regional Transport Officers amounting to ₹ 73.97 crore. Similar omissions on the part of the Assessing Authorities (AAs) were pointed out in our stand alone report on "Collection of motor vehicle taxes, fees and fines" in the year 2010 but not only do the irregularities

	persist, these remained undetected by them till these were again detected by us. These irregularities/omissions were apparent from the records made available to us by the AAs but they were unable to detect these mistakes.
Our conclusion	**Government may initiate necessary steps to conduct internal audit of the Transport Department. Appropriate steps may be taken to maintain the electronic TDR in the computerised system and improve the recovery position. The Department needs to initiate immediate action to recover the non-realisation, undercharge of tax etc. pointed out by us, more so in those cases where it has accepted our contention.**

CHAPTER V : MOTOR VEHICLES TAX

5.1 Tax administration

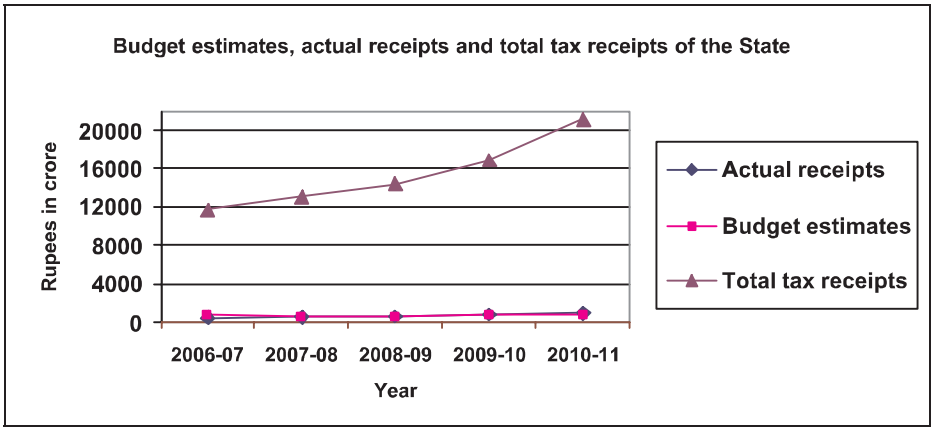
Taxes on vehicles consist of receipts under the Central Motor Vehicles Act and receipts under the State Motor Vehicle Taxation Act etc. The assessment and collection of Motor Vehicle tax is governed by the Central Motor Vehicles Act, 1988, the Central Motor Vehicles Rules, 1989, the West Bengal Motor Vehicles Tax Act, 1979, the West Bengal Motor Vehicles Rules, 1989 and the West Bengal Additional Tax and One time tax on Motor Vehicles Act, 1989. Motor Vehicles tax is administered by the Transport Department headed by the Secretary who is assisted by one Special secretary, five Joint Secretaries, two Assistant Secretaries, one Registrar and one Statistical Officer at the Headquarters. The Secretary, State Transport Authority (STA), Director, Public Vehicles Department (PVD), Kolkata, 18 Regional Transport Officers (RTOs) and seven Additional Regional Transport Officers (ARTOs) administer the provisions of the Motor Vehicles Act and Rules.

5.2 Trend of receipts

Actual receipts from Taxes on Vehicles during the years 2006-07 to 2010-11 along with the budget estimates and the total tax receipts of the state 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	759.84	508.97	(-) 250.87	(-) 33.02	11,694.77	4.35
2007-08	645.88	532.07	(-) 113.81	(-) 17.62	13,126.33	4.05
2008-09	673.11	608.01	(-) 65.10	(-) 9.67	14,419.15	4.22
2009-10	774.08	774.34	(+) 00.26	(+) 0.03	16,899.98	4.58
2010-11	890.13	936.01	(+) 45.88	(+) 5.15	21,128.74	4.43



A study of the budget estimate vis-à-vis actual receipts shows that the actual receipts was less than the budget estimates during the years 2006-07 and 2008-09 and the percentage of variation ranged between (-) 9.67 and (-) 33.02 *per cent*. From 2009-10 to 2010-11 the actual receipts was more than the budget estimates and percentage of variation was between 0.03 and 5.15 *per cent* during the period.

5.3 Cost of collection

The gross collection from taxes on Motor Vehicles and the expenditure incurred on collection during the years 2008-09 to 2010-11 are given in the following table:

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average of expenditure on collection for the preceding year
Taxes on Motor Vehicles	2008-09	608.01	11.92	1.96	2.09
	2009-10	774.34	17.88	2.31	2.93
	2010-11	936.01	19.64	2.10	3.07

Source: Finance Accounts.

The above table shows that there was an increase in expenditure on collection of revenue in 2009-10 but expenditure on collection of revenue was always below the all India average for the preceding years. This requires to be maintained in subsequent years.

5.4 Revenue impact of audit reports

During the last five years (including the current year's report), we pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc., with revenue implication of ₹ 236.63 crore in 61 paragraphs. Of these, the Department/Government had accepted audit observations in 27 paragraphs involving ₹ 84.44 crore and had since recovered ₹ 7 lakh. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraph included		Paragraphs accepted by the departments		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	06	132.90	05	68.37	Nil	Nil
2007-08	04	4.66	04	1.09	Nil	Nil
2008-09	05	10.69	05	1.17	Nil	Nil
2009-10	42	14.41	09	4.76	Nil	Nil
2010-11	04	73.97	04	9.05	02[1]	0.07
Total	**61**	**236.63**	**27**	**84.44**	**02**	**0.07**

Thus, against the accepted cases of ₹ 84.44 crore, the Department/Government has recovered ₹ 7 lakh which is only 0.08 *per cent.*

We recommended that the Government may take appropriate steps to improve the recovery position.

5.5 Working of internal audit wing

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The internal audit branch set up in November 1998 under the Finance Department conducts internal audit in various departments.

We observed that the Motor Vehicle Department had no internal audit wing of its own. The Finance (Internal Audit) Department did not conduct audit of the Transport Department. As a result internal control failure in several spheres could not be ruled out.

5.6 Results of audit

In 2010-11 we test checked the records of 13 units relating to Taxes on Motor Vehicles and found non-realisation/blocking of revenue and other irregularities involving ₹ 97.20 crore in 182 cases which fall under the following categories:

(₹ in crore)

Sl. no.	Categories	No. of cases	Amount
1	**Computerisation in Motor Vehicles Department (A Performance Audit)**	1	---
2	Non-realisation of tax, additional tax and penalty	56	73.48
3	Non/short realisation of fees	58	06.70
4	Loss of revenue due to non-issue of saleable forms	10	09.81
5	Non/short realisation of fine	6	0.39
6.	Other irregularities	51	6.82
Total		**182**	**97.20**

[1] Partly accepted.

During the course of the year, the Department accepted non-realisation/ blocking of revenue and other deficiencies of ₹ 60.15 crore in 17 cases, of which 16 cases involving ₹ 59.90 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. An amount of ₹ 6.82 lakh was realised in 58 cases at the instance of audit.

Audit findings of the performance audit on **'Computerisation in Motor Vehicles Department'** and a few other illustrative cases involving ₹ 73.97 crore are mentioned in the following paragraphs.

5.7 Performance audit on "Computerisation in Motor Vehicles Department"

HIGHLIGHTS

- The Department started implementation of 'VAHAN' and 'SARATHI' in the year 2004 without formulating any User Requirement Specification (URS).

(Paragraph 5.7.8)

- The implementation of 'VAHAN' and 'SARATHI' was either not completed in all the motor vehicles offices or it was partially utilised even after the expiry of seven years. The motor vehicles check-posts were not computerised till November 2011 and the objective of uniform readable Driving License and Registration Certificate throughout the State had not been achieved.

(Paragraph 5.7.6, 5.7.7, 5.7.14 and 5.7.15)

- There was failure in administrative controls which resulted in lack of security policy, non-updating of antivirus software and non-segregation of duties.

(Paragraph 5.7.9, 5.7.10 and 5.7.12)

- The State Register of driving licences (SARATHI) was not prepared and the State Register of Registration Certificate (VAHAN) was not completed till November 2011.

(Paragraph 5.7.19)

- There was absence of interconnectivity of the national permit system with the State Register and the system was not able to fetch the required information from the State Register for issue of national permits.

(Paragraph 5.7.20)

- The Department had not taken any initiative to pursue centralised tendering process resulted in avoidable expenditure on data entry, oversized tax token and Annual Maintenance Contract.

(Paragraph 5.7.21.1, 5.7.21.2, 5.7.21.5 and 5.7.21.6)

5.7.1 Introduction

The Transport Department of the Government of West Bengal is governed by the Motor Vehicle (MV) Act, 1988, the Central Motor Vehicle Rules, 1989, the West Bengal Motor Vehicles Tax Act, 1979, the West Bengal Additional Tax & One Time Tax on Motor Vehicles Act, 1989 and the West Bengal Motor Vehicles Rules, 1989. The Transport Department is primarily responsible for enforcement of the provisions of the Acts and the Rules framed thereunder which, *inter alia*, includes the collection of taxes and fees, issuance of driving licences and certificates of fitness to transport vehicles, registration of motor vehicles and granting permits to motor vehicles.

The Government of West Bengal envisaged a scheme of computerisation in the Transport Department in the year 1991 to make the Department citizen-friendly in its functioning and to provide better services to the public. Accordingly, five Registering Authorities were computerised in the year 2000 using a software called the Transport Information System (TIS). In the year 2002, the Ministry of Road Transport and Highways (MoRTH), Government of India entered into a Memorandum of Understanding with the National Informatics Centre (NIC), Delhi to develop a core software for vehicle registration and issue of driving licence. The VAHAN software for registration and tax collection of vehicles and SARATHI software for issue and renewal of driving licences (DL) were developed centrally by the NIC for the whole country. Accordingly, TIS was replaced by VAHAN.

The VAHAN and SARATHI softwares were customised by the NIC, West Bengal State unit and implemented in the Public Vehicles Department (PVD), Kolkata in July 2004. These softwares were made operational in the offices of the RTOs[2] on different dates. During the period between 2006-07 and 2010-11, SARATHI was operational in nine RTOs[3] and VAHAN in 24 RTOs[4].

Out of 26 RTOs in the State, 18 RTOs function under the direct supervision of the District Magistrates. In seven RTOs[5] Build Operate and Transfer (BOT) agencies were engaged for computerisation while a Build, Operate, Own, Transfer (BOOT) agency was engaged in PVD Kolkata. In the BOT/BOOT projects, the infrastructure was to be transferred to the Department at the end of the contract period.

The objectives of computerisation were to build a comprehensive database and provide online access to the public covering the entire gamut of services viz., issue of driving licences and permits, registration and taxation of vehicles and monitoring the transport system in the State.

5.7.2 Organisational set up

The Secretary to the Government of West Bengal, Transport Department is the administrative head of the Department. He is assisted by one Special Secretary, five Joint Secretaries, two Assistant Secretaries, one Registrar and one Statistical Officer. The Secretary, STA, Director, PVD, Kolkata, 18 Regional Transport Officers and seven Additional Regional Transport Officers administer the provisions of the Acts and Rules. One of the Joint Secretaries, Transport Department is responsible for all computerisation related activities in the Department.

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[2] Regional Transport Offices {including offices both under Regional Transport Officers (RTO) and Additional Regional Transport Officers (ARTO)}.

[3] Asansol, Barasat, Barrackpore, Burdwan, Durgapur, Hooghly, Howrah, PVD Kolkata and South 24 Parganas.

[4] Alipurduar, Asansol, Balurghat, Bankura, Barasat, Barrackpore, Birbhum, Burdwan, Contai, Coochbehar, Durgapur, Hooghly, Howrah, Jalpaiguri, Malda, Murshidabad, Nadia, Paschim Medinipur, Purulia, PVD Kolkata, Raigunj, Siliguri, Tamluk and South 24 Parganas.

[5] Asansol, Barasat, Barrackpore, Burdwan, Durgapur, Hooghly and Howrah.

5.7.3 Audit objectives

We conducted the performance audit to ascertain whether:

- phase-wise implementation schedules for the State for VAHAN and SARATHI were achieved as per time frames fixed;
- the local applications for vehicle registration and driving licence developed and implemented by the State, to the extent they differ from the structure of VAHAN and SARATHI, have defeated computerisation objectives of the Ministry;
- connectivity was established between RTOs in the State for creation of a State Register of vehicles and licences and National Register;
- the computerised National Permit System was implemented as planned for and the project objectives were achieved; and
- the overall objectives of computerisation of VAHAN and SARATHI were achieved.

5.7.4 Scope and methodology of Audit

A comprehensive Stand Alone Report was prepared by the Comptroller and Auditor General of India for the year ended 31 March 2010 on "Collection of Motor Vehicle taxes, fees and fines". The scope of this performance audit was therefore limited to audit of implementation of the softwares VAHAN and SARATHI and examination of controls in the softwares from the date of their implementation in various RTOs upto 31 March 2011.

Apart from the STA, which is responsible for issue of national permits, we selected eight (50 *per cent*) RTOs[6] on a random basis from the offices[7] where BOT is not operational. All the eight BOT/BOOT operated RTOs[8] were also selected. The performance audit was conducted during the period from June 2011 to August 2011.

5.7.5 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 with the Secretary, Transport Department in which the audit objectives, scope and methodology were explained. The audit findings were reported to the Government in September 2011 and were discussed with the Secretary, Transport Department in the exit conference held in November 2011. The views of the

[6] Malda, Bankura, Murshidabad, Contai, Nadia, Tamluk, Paschim Medinipur and Balurghat.

[7] Nadia, Purulia, Raiganj, Balurghat, Coochbehar, Bankura, Alipurduar, Malda, Jalpaiguri, Murshidabad, Siliguri, Birbhum, Tamluk, Paschim Medinipur, South 24 Parganas and Contai (Darjeeling and Kalimpong offices were closed due to administrative reasons therefore excluded from selection).

[8] BOT operated RTOs - Asansol, Barasat, Barrackpore, Burdwan, Durgapur, Hooghly, Howrah and BOOT operated RTO - PVD Kolkata. (Name of the agency in PVD, Kolkata - WEBEL, in RTO Howrah - WBTIDC Ltd., in RTOs Barasat, Barrackpore and Hooghly - M/s Venus Softwares and in RTOs Burdwan, Durgapur and Asansol- M/s Compu Graphics Services).

Government/Department have been incorporated suitably in the relevant paragraphs.

Audit findings

5.7.6 Status of computerisation of RTOs

When we sought information on the planning process for computerisation of the RTOs, the Department did not furnish any document bringing out the stages of implementation of VAHAN and SARATHI. We noticed that the system was made operational depending upon the availability of funds in the districts and the initiative taken by the district administration (District Magistrate (DM)/RTOs). We observed (July 2011) that VAHAN was implemented in 24 RTOs and SARATHI in 9 RTOs out of 26 RTOs.

After we pointed this out (July 2011) the Government stated (November 2011) in the exit conference that VAHAN was now operational in 25 RTOs (except Kalimpong) and SARATHI was operational in 16 RTOs[9] out of the 26 RTOs.

5.7.7 Non-computerisation of check-posts

Strict enforcement of different rules and regulations as to issues related to various kind of permits, realisation of Government revenue in the form of compounding of various offences like taxes for tax defaulter vehicles, fees for expired licences, fees for expired fitness etc., led to the concept of setting up of check-posts at places close to the inter-state borders.

Three motor vehicles check posts[10] were functioning in West Bengal till November 2011. We found that the Department had not planned for computerisation of these check posts though they were assigned with the duties of enforcement of different rules and regulations such as issue of various kinds of permits, realisation of Government revenue etc. All these business transactions were to be done by utilising VAHAN application. Non-computerisation of the check-posts therefore defeated the very purpose of introduction of VAHAN.

5.7.8 Non-existence of User Requirement Specification

User Requirement Specification (URS) describes the users' requirements from the system. URS is written early in the validation process, typically before the system is created. The documentation describes what is needed by the system user as well as requested properties of inputs and outputs. It is written by the system owner and system users.

We noticed that the Department had not communicated any URS to the State NIC for customisation of VAHAN and SARATHI. There was no document to establish that these applications were

[9] Alipurduar, Coochbehar, Jalpaiguri, Siliguri, Malda, Birbhum, Burdwan, Asansol, Durgapur, Contai, Hooghly, Howrah, Barasat, Barrackpore, Alipore and PVD Kolkata.

[10] Rampur motor vehicles check post, Asansol Burdwan, Beltala motor vehicles check- post, Paschim Medinipur and Baromisha motor vehicles check-post, Jalpaiguri.

customised according to the Acts and Rules of the State.

After we pointed this out (July 2011), the Government accepted (November 2011) the audit observation in the exit conference. The Technical Director, NIC informed that no URS had been prepared by the Department. However, the Government instructed the Technical Director not to incorporate any change in the system without written requisition from the users and approval of the competent authority.

5.7.9 Lack of Security Policy

A computer security policy defines the goals and elements of an organisation's computer systems. Regular backup of any active database is essential to guard against data loss and to protect the database design. Using a backup, an entire database or selected database objects can easily be restored.

We had pointed out in Para no. 2.3.1 and Para no. 2.5 of the Stand Alone Report of the Comptroller and Auditor General of India for the year ending 31 March 2010 about the lack of security policy and absence of business continuity plan. We noticed during the present performance audit that a security policy and business continuity plan was yet to be framed. We further noticed that due to lack of a business continuity plan, data could not be restored in the office of the RTO, Jalpaiguri after a system crash which occurred on 9 April 2010 following which the data was irretrievably lost as the RTO had discontinued the maintenance of any manual register relating to collection of taxes and fees after computerisation of their activities. Thus, the Department would have to depend upon the documents furnished by the vehicle owners/licence holders in respect of tax receipts/payments in the event of a system crash.

After we pointed this out (July 2011), the Government stated (November 2011) in the exit conference that the Department would take action on these issues with the assistance of NIC.

5.7.10 Non-updating of antivirus software

An updated antivirus software is required to be installed in order to safeguard the data stored in the computerised system.

We noticed from the eight RTOs[11] (other than offices under BOT model) that in one[12] RTO there was no antivirus software, in four RTOs[13] the software was not updated regularly whereas in respect of three RTOs[14] specific information was not provided to us.

After we pointed this out (July 2011), the Government agreed (November 2011) in the exit conference to take necessary action on the subject.

[11] Balurghat, Bankura, Contai, Paschim Medinipur, Malda, Murshidabad, Nadia and Tamluk.
[12] Murshidabad.
[13] Contai, Paschim Medinipur, Tamluk and Nadia.
[14] Balurghat, Bankura and Malda.

5.7.11 Status of Annual Maintenance Contract

For smooth running of the computerised system in any office Annual Maintenance Contract (AMC) is required to be executed. We noticed that MoRTH, Government of India through NIC, New Delhi supplied hardware and accessories. HCL Ltd. delivered these articles[15] in the eight RTOs[16] not functioning through BOT agencies. Test check of RTOs revealed that in six RTOs[17] out of these eight RTOs had not executed AMCs.

5.7.12 Non-segregation of duties

The Manual of Office Procedure is intended to serve as a guide for regulating work in the office. It gives a detailed and informative guide to undertake the job.

We noticed that manuals for segregation of duties and functioning in the computerised environment under the supervision of the higher officials had not been prepared. Thus, at present the accountability of a user could not be ascertained.

After we pointed this out (July 2011), the Government stated (November 2011) in the exit conference that the Department would look into the matter and take necessary action on the subject.

5.7.13 Analysis of budget provision

Budget provision of ₹ 6.10 crore was made from time to time during the period 2007-11 for computerisation of the motor vehicle offices. The status of utilisation of the fund allocated to the MV offices was not readily available as stated (July 2011) by the Joint Secretary, Transport Department. Thus, the Department was not able to quantify the fund utilised for computerisation in the State.

After we pointed this out (July, 2011), the Government stated (November 2011) in the exit conference that information on actual utilisation would be obtained from the RTOs.

5.7.14 Partial implementation of software

In order to achieve the desired objectives, there should be a proper strategy and a well defined plan for customising, implementing and maintaining the information system.

A mention was made in para no. 2.2.1 regarding 'partial utilisation of software' in the Stand Alone Report of the Comptroller and Auditor General of India for the year ended 31 March 2010. After the same was pointed out the Government stated (September 2010) that the non-utilised provisions of VAHAN and SARATHI software would be utilised in the near future.

[15] No.156(8) –SSRKM/TR/O/1E(C)-13/2008 dated 12.08.2010.
[16] Balurghat, Bankura, Malda, Murshidabad, Nadia, Contai, Paschim Medinipur and Tamluk.
[17] Balurghat, Malda, Murshidbad, Contai, Paschim Medinipur and Tamluk.

We noticed that even after lapse of ten months (July 2011) the Department was yet to utilise the provisions of VAHAN (issue/renewal of permits to transport vehicles, enforcement activities relating to offending vehicles, temporary registration of vehicles, issue/renewal of trade certificates to dealers, surrender of vehicles, maintenance of daily collection register and sub-dealer's licence register) and SARATHI (issue and renewal of conductor's licences and licences to the motor training schools).

After we pointed this out (July 2011), the Government directed (November 2011) the Technical Director, NIC in the exit conference to take necessary action immediately for computerisation of these areas.

5.7.15 Non-replication of Smart Card system

Smart Card system was aimed to restrict/ eliminate the use of fake driving licences (DL) and registration certificates (RC) of vehicles. The embedded micro chip of the Smart Card can store electronic data which can be read and updated by using terminals and devices.

- Smart Card system was introduced in PVD Kolkata, West Bengal in the year 2004. The office was the first in India to introduce Smart Card. Issue of DLs and RCs on Smart Card had not been done in other RTOs in the State till the date of audit.

After we pointed this out (July 2011), the Government informed (November 2011) in the exit conference that the Department would consider centralised tender process for smart card system.

- Hand held terminals are used to read Smart Cards. It was noticed that these devices were not provided to the check-posts for reading information stored in chips available in Smart Cards and also for checking the authenticity of the Smart Cards. As such, the officials had to rely on the hard copies of relevant documents provided by the vehicle owners.

5.7.16 Partial implementation of online services

Online services were provided to enable citizens to get the work done from the comfort of their home/office at a time suitable to them. This would not only reduce the rush to RTOs but also save a lot of effort which goes into entering data into the system.

We noticed that payment of tax through State Bank of India (SBI) payment gateway was implemented in five RTOs[18] for non-transport Light Motor Vehicles (LMV) only. Online services for payment of tax for other classes of vehicles in all units and other services like registration of vehicles, driving licence and fitness of vehicles were not started. Thus, online facility of payment of taxes was not available to the remaining vehicles owners, even after computerisation of RTOs.

After we pointed this out (July 2011), Government stated (November 2011) in the exit conference that steps would be taken to make the services online for convenience of the public.

[18] PVD Kolkata, Barasat, Barrackpore, Howrah and South 24 Parganas.

5.7.17 Local/Customised Application

VAHAN has the provision for issue/ renewal of permits, enforcement activities, temporary registration of vehicles, issue/ renewal of trade certificates to dealers, surrender of vehicles, maintenance of daily collection register and sub-dealer's licence register. Similarly, SARATHI has the provisions to issue and renew conductor's licences and licences to the motor training schools.

A mention was made in para no. 2.2.1 of the Stand Alone Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 that a locally developed software called "Regional Vahan Sarathi" (RVS) was being utilised along with operation of VAHAN and SARATHI. The RVS was used for generation of computerised money receipts in respect of the activities where the government dues were assessed manually. The RVS was also utilised for preparation of daily collection report. The VAHAN and SARATHI had provisions of all the activities performed by RVS. Thus, the RVS was not required at all, had the provisions of VAHAN and SARATHI been fully utilised. We found that the RVS was still being used and the Department had not initiated any action to discontinue the use of RVS.

After we pointed this out (July 2011), the Government informed (November 2011) in the exit conference that RVS would be discontinued in areas where it is not required after implementation of VAHAN and SARATHI in all the RTOs.

5.7.18 Irregular utilisation of Regional Vahan Sarathi

VAHAN has a provision for automatic calculation of taxes, fees and fines payable by the owners at the time of payment on entering the vehicle number in the system, whereas RVS does not have such provision of automatic calculation and it accepts the amount calculated manually.

A mention was made in the second paragraph of Para no 2.2.1 regarding 'development of parallel software RVS' in the Stand Alone Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 on "Collection of Motor Vehicles Taxes, fees and fines".

The assessment and collection of taxes, fees and fines was being done through VAHAN. We noticed that inspite of the provision of automatic assessment of dues available in VAHAN, taxes, fees and fines were assessed manually also in some cases and computerised money receipts were generated on that account through RVS. Reasons for use of RVS in such purposes was not furnished by the Department though sought for.

After we pointed this out (July 2011), the Government directed (November 2011) in the exit conference to the NIC to de-function/stop the application of RVS in the functional areas which are already available in VAHAN.

5.7.19 Non-completion of State Register

Data captured at the RTO level in a State is required to go into the State Consolidation Register (SCR) to act as backup data for disaster recovery and selected data from the SCR is to be replicated to the State Register. Selected information from the SR will flow to the National Register (NR). The NR is expected to act as a central repository for all crucial data/information. Further, MoRTH has been monitoring the process of computerisation of RTOs and up-loading the existing data with a view to ensure that the work was completed within 31 December 2009. The date was further extended upto March 2011.

- We found that backlog data entries in respect of both the vehicle count and driving licence had not been completed in all the RTOs throughout the State till March 2011. We observed from a test check of eight RTOs[19] that backlog data entries in 4,84,129 number of cases were pending as on August 2011. Further, installation of SARATHI had still not been done in 17 out of 26 RTOs. This has adversely affected the creation of National and State Register of DL and RC. MoRTH had adversely commented in September 2009 on the slow progress of the project in the State.

- We noticed that the State Register maintained by the State NIC was not handed over to the Transport Department. Further, a replica of the SR had not been installed in the Transport Department, Writers' Building. Thus, the Transport Department had to depend on NIC for this purpose.

- We noticed that the structure of NR had not been prescribed in the Central as well as in the State MV Acts and Rules. Thus, there was no uniform prescribed format and information which was to be supplied by the States for creation of NR.

After we pointed this out (July 2011), the Technical Director, NIC informed (November 2011) in the exit conference that the State Register for VAHAN had been prepared. SARATHI had not been introduced in 10 RTOs and hence the State Register for SARATHI had not been prepared.

5.7.20 Discrepancies in national permit system

An electronic system of granting National Permit (NP) was implemented with effect from September 2010 in the State of West Bengal.

Deficiencies noticed in the national permit system are stated in the succeeding paragraphs:

- For obtaining national permit the vehicle owner has to provide certain necessary information along with the vehicle details. In absence of interconnectivity of the national permit system with the State register, the system was not able to fetch the required information from the State register

[19] Balurghat, Bankura, Contai, Paschim Medinipur, Malda, Murshidabad, Nadia and Tamluk.

and this information was entered into the system from the documents given by the applicants leading to waste of manpower and time.

- Certain fields had not been made compulsory for data entry purpose like pin code number and the mobile number of the owner which could be utilised in future for further communication purposes.

- The system was allowing several users to use same login ID thereby compromising the system. Further, the same login ID was used for data entry purpose as well as for alteration of information of previously issued permits for the purpose of rectification/correction, thus showing there was no segregation of duty in this regard to authorise such alteration.

- State Permit (SP) to goods vehicles were issued for five years for plying within the State, whereas NP was issued for one year for inter-state plying within the country. NPs were to be issued to those vehicles only which have valid SPs. The system was unable to verify the period of validity of SP automatically at the time of issue of NP. Therefore the possibility of issue of a NP to a vehicle, the validity of whose SP has expired, could not be ruled out.

- A vehicle is identified with Registration number as well as Chassis number which are unique numbers. The Chassis number is embedded on the body of the vehicle and is not changeable. The Registration number of a vehicle can be changed on transfer of a vehicle to the other states. Any correction in the Registration number is carried out through the reassignment menu of the system under proper authorisation. But the chassis number of vehicle can be modified by the counter clerk without any authorised order. Thus the possibility of input of the incorrect chassis number in the NP database could not be ruled out.

5.7.21 Outsourcing of VAHAN and SARATHI applications

5.7.21.1 Allotment of work

For smooth running of the computerised system, the Transport Department decided (January 2005) to engage outside agencies which were to be selected by the concerned DMs to provide different types of services such as AMC of hardware, purchase of consumables, computer stationary, replacement of hardware etc. The Transport Department circulated (January 2005) the general terms and conditions to be followed by the DMs in finalisation of agreement/ MOU with the private vendors under BOT basis for computerisation of RTOs.

Public Vehicles Department (PVD), Kolkata was fully outsourced through M/s.West Bengal Electronics Industries Development Corporation Ltd. (WEBEL) for both VAHAN and SARATHI under BOOT arrangement. Seven RTOs[20] where SARATHI is operational were outsourced through three[21] BOT operators. In the remaining 16 computerised RTOs, hardware was installed out of the Central/ State Government funds.

We noticed that the Department had not taken any initiative to pursue a centralised tendering process for BOT model of computerisation but instructed the DMs to implement the project on their own. In absence of a centralised tendering process, upgrading of existing hardware as well as software and effective maintenance of the existing system of all the RTOs was not initiated at one time as it was left to the discretion of the concerned DMs.

- We noticed that there was no uniformity in the end product i.e., Cards for DL and RC. At present three types of cards were in use in the State, i.e., Smart Card, Plastic Card and paper documents.

- We noticed that clause for liquidated damages were not included in the contract to safeguard the interests of the State Government in case the vendor defaulted on contractual obligations.

- Timeframe for completion of various activities under the contract had not been specified so as to objectively assess the performance of the vendor on contractual obligations from time to time.

- The contract was silent regarding transfer of ownership to the Transport Department of the hardware that was installed in the event of non-renewal of the contract after its expiry.

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[20] Three RTOs in Burdwan district, two RTOs in 24 Parganas (North), RTO Hooghly and RTO Howrah.

[21] West Bengal Transport Infrastructure Development Co. (RTO Howrah), M/s Venus Software (RTOs Barasat, Barrackpore and Hooghly) and Compu Graphics Services (RTOs Burdwan, Durgapur and Asansol).

After we pointed this out (July 2011), the Government stated (November 2011) in the exit conference that the Transport Department would consider the views of audit on centralised processing of the tender. It was agreed that uniformity in issuance of cards for DL/RC needs to be maintained and the Transport Department would consider incorporating the relevant terms and conditions in the tender agreement, if necessary.

5.7.21.2 Avoidable expenditure on data entry

As per the general terms and conditions the BOT agency was required to transfer the existing data to the new system at their cost. Thus, as per the agreement data entry in the "VAHAN" and "SARATHI" software should be done by the BOT operator.

We noticed in RTO, Barasat that M/s Venus Software was engaged (March 2011) for data entry work and were required to provide services of two data entry operators for six months. The payment of ₹ 8,824 per month for the services of these two operators were made by the Department. This was in contravention to the agreement and resulted in undue financial aid to the BOT operators.

Further no time frame for backlog data entry had been prescribed in the agreement.

5.7.21.3 Non-realisation of electricity charges

Under clause 6 and 7 of the general terms and conditions of the Transport Department of order of January 2005, electrical wiring, lighting, air conditioning etc., were to be executed by the agency as per requirements in consultation with the DM/RTO office. Energy charges for running electrical appliances and computers would be borne by the agency.

We noticed from the deed of agreement between M/s Venus Software and the DM, Hooghly, that the aforesaid clauses were not included in the agreement. In the absence of such a clause in the agreement, energy charges were not recovered from the agency and the local office under the DM, Hooghly was paying the same. This resulted in loss of revenue to the Government.

After we pointed this out (July 2011), the Government stated (November 2011), in the exit conference that after obtaining information from the concerned RTOs reply to audit would be furnished.

5.7.21.4 Irregular allotment of work of lamination

As per General Financial Rules, 2005 the procedure for selection of vendor through open tender involves inviting quotations, selecting the lowest bidder, executing an agreement with the vendor and finally issuing the work order. The procedure must ensure healthy competition among suppliers and contractors, in a transparent and fair manner.

We noticed in RTO, Barasat that M/s Venus Software was selected as the BOT agency for computerisation of RTOs Barasat and Barrackpore by the Additional District Magistrate (G), North 24 Parganas and an agreement was executed in June 2008. This work of lamination of documents was not included in the said agreement. This work was awarded to the same agency in August 2008 without following a process of competitive bidding for selection of vendor.

After we pointed this out (July 2011), the Government stated (November 2011) in the exit conference that the Transport Department would initiate action after obtaining information from the RTOs.

5.7.21.5 Avoidable payment for oversized tax token and Form 38

ADM, South 24 Parganas, Alipore entered into an agreement with M/s Score Information Technologies Ltd. on 10 June 2008 for printing of Card, RC and DL and lamination of Tax Token, Learner Licence and Certificate of Fitness in Form 38 for the MV Department, South 24 Parganas, Alipore for the period from 10 June 2008 to 30 June 2011. The rate of ₹ 4.49 was accepted for lamination of tax token and Form 38 as per the agreement.

We noticed that the vendor claimed ₹ 5.76 for each lamination instead of ₹ 4.49 for the year 2010-11 and thus there was excess payment of ₹ 1.18 lakh for lamination of 92,935 tax tokens and certificates of fitness. We further noticed that the size of the documents specified (6" X 4") in the agreement was increased by the DM to (6" X 9.2") in November 2009 on the basis of a discussion with the vendor. The work of lamination was entrusted to the same agency without calling any tender.

5.7.21.6 Avoidable expenditure on AMC

WBTIDC Ltd. was entrusted the work of installation, operation and maintenance of the system for smooth functioning of "VAHAN" and "SARATHI" at RTO, Howrah. As per terms and conditions of the AMC, the maintenance of the hardware supplied by the WBTIDC Ltd. was to be executed by the WBTIDC Ltd. at their own cost.

We observed that the server which had gone out of order was got rectified by the DM by inviting quotations locally. The quotation of M/s VSD Corporation of

March 2007 was accepted and expenditure of ₹ 32,467 incurred. Since the maintenance work was entrusted[22] to WBTIDC Ltd. incurring of the expenditure by the DM was not in order and resulted in undue financial aid to WBTIDC Ltd.

5.7.22 Other observations

5.7.22.1 Non-maintenance of separate bank account and its report to the Transport Department

As per clause 10 of the Departmental order dated January 2005, DMs were required to open separate bank account for collection of additional charges realisable apart from normal service charges. A monthly report was to be sent to the Transport Department showing the total amount collected and expenditure incurred from the account. Seven *per cent* of the BOT operator's bill was to be debited against the hardware depreciation charges per month and deposited preferably in a fixed deposit.

- We noticed in six RTOs[23] under three DMs[24] that though depreciation charges at the rate of seven *per cent* was debited from the BOT operator's bill, the said amount was not kept separately in a fixed deposit as per the Departmental instructions. Further, the RTOs had not reported the amount so collected monthly/annually to the Department. The Department had also not called for this information.

5.7.22.2 Collection of additional service charges

The Government of West Bengal vide their notification of October 2004 prescribed charges of ₹ 140 and ₹ 340 per driving licence and registration certificate respectively for providing IT infrastructure and services for the maintenance of the computerised State Register of Driving License/Motor Vehicles, which was to be charged from the driving licence holder/ vehicle owner. The charges were required to be collected by M/s WEBEL which was appointed as an agency for issue of DL and RC. Out of the charges so collected WEBEL was required to provide a fixed amount of ₹ 5/₹ 30 per smart card as applicable from time to time to WBTIDC to meet the various safety commitments of the State Government and all expenditure from this head was to be made after the approval of the Transport Department.

- We found that ₹ 2.66 crore had been provided by M/s WEBEL to WBTIDC Ltd. at the rate of ₹ 5 per smart card from October 2004 to December 2008 and ₹ 30 per smart card from January 2009 to October 2011. However, an expenditure of ₹ 38.16 lakh only was incurred by the Department between October

[22] Transport Department. memo No. 4569-WT/1E (C) 154/91 Pt. III dated 18.10.2006.
[23] Barasat, Barrackpore, Burdwan, Durgapur, Asansol and Hooghly.
[24] North 24 Parganas, Burdwan and Hooghly.

2004 and March 2011 which includes the expenditure of ₹ 18.11 lakh for the purposes other than traffic safety commitments of the State Government. This resulted in utilisation of ₹ 18.11 lakh from the fund by the Department for purposes other than the purposes for which it was meant for.

- We also found that the Transport Department had given concurrence for charging of ₹ 340 and ₹ 140 per RC and DL respectively to M/s WEBEL for the purpose of maintaining a State Register of RC and DL. However, the State Register for DL had not been completed till the date of Audit (December 2011).

5.7.23 Conclusion

Though the 'VAHAN' and 'SARATHI' application softwares were made operational in 2004, the Government failed to implement it all over the State till date. Even after seven years of initiation of 'VAHAN' and 'SARATHI' the modules developed for major functionalities like permit, were not fully implemented and 'Smart Card' for RC and DL were not replicated all over the State. Locally developed application, RVS, was being used for generation of revenue receipts for non-computerised Modules. The Department did not have an IT plan leading to absence of direction in the IT implementations. Thus there were disparate implementations of VAHAN and SARATHI. Failure to enter all relevant data led to incomplete State Register. IT security was deficient exposing the system to potential risks. The centralised tendering process for selection of BOT operators was not followed and was left at the initiative of DMs which led to non-uniformity in tendering process as well as in end products. Also non-observance of the general terms and conditions issued by the Department to the RTOs in this regard led to irregular execution of work.

5.7.24 Recommendations

The Government may consider implementation of the following recommendations:

- ensuring that the implementation process, whether through BOT operator or otherwise, should be expedited for completion of the project;
- going for centralised tendering process for the entire state for the smart card system to maintain uniformity in issuance of Smart Card, its rates of fee and transparency;
- standardising procurement process among all RTOs; and
- ensuring that a strict security policy is formulated and implemented.

5.8 Audit observations

The motor vehicles' activities of the Transport Department are administered by 26 registering authorities (RAs). Of these VAHAN[25] was operational in 24 RAs (excluding Darjeeling and Kalimpong) which had 33,74,032 number[26] of registered vehicles.

Scrutiny of the records in the offices of the Director, Public Vehicles Department (PVD), Kolkata Regional Transport Officers (RTOs) and Additional Regional Transport Officers (ARTOs), indicated non-realisation of tax, additional tax and penalty, non-realisation of special fees, loss of revenue due to non-issue of saleable forms and non-realisation of fine due to non-reference of offence cases to the court of law as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions were pointed out by us repeatedly but not only these persisted; they also remained undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such cases can be avoided.

5.9 Non-realisation of tax, additional tax and penalty from the owners of vehicles

The West Bengal Motor Vehicles (WBMV) Tax Act, 1979 and the West Bengal Additional Tax and One-Time Tax on Motor Vehicles (WBAT) Act, 1989 prescribe the rate of tax and additional tax on motor vehicles based on their use, seating capacity or weight. Both the Acts provide for levy of penalty equal to the tax and additional tax in case of non-payment of tax beyond 75 days from the due date. The vehicles surrendered or obtained NOC are exempted from paying tax. Section 16 of the WBMV Tax Act provides for seizure of the vehicles in case of non-payment of tax.

Scrutiny of vehicles register, tax demand register and surrender register of RTO, Coochbehar and the VAHAN database[27] of six[28] RTOs (including Director, Public Vehicles Department) between January and February 2011 revealed that out of 8,88,862 vehicles registered under these RTOs, the owners of 1,14,987[29] vehicles did not pay tax and additional tax for different periods between April 2005 and March 2010. The delay in non-payment of tax and additional tax ranged between three and 54 months for which 100 *per cent* penalty was leviable. The vehicles were neither surrendered nor obtained 'No Objection Certificate' (NOC) from the transport authority. The RTOs did not take any action to realise the tax, additional tax and penalty from these defaulting vehicle owners due to non-

[25] VAHAN is a software developed for registration of vehicles and collection of road taxes.
[26] As on 02.06.2011.
[27] Owner, Road tax, Additional road tax, NOC, Black list, Surrender and RVS tables.
[28] RTOs: Birbhum, Jalpaiguri, Murshidabad, Purulia, PVD, Kolkata and Uttar Dinajpur.
[29] Goods vehicle - 42,092, Trailer – 2,536, Tractor – 3,618, Contract Carriage – 15,801, Bus (Educational) – 8, Bus – 3,235, Mini Bus – 822, LMV (car) – 30,141, Omni Bus (Private use) – 338, Omni Bus (Non-Transport) – 925, Motor Cycle – 15,288, Earth Moving Equipment – 48, Tourist Bus – 28, and Articulated vehicle – 107.

maintenance of electronic tax demand register (TDR). Moreover, the manual TDR was also discontinued from the date of inception of VAHAN software. As a result realisation of tax could not be monitored. In Coochbehar though the TDR was maintained till inception of VAHAN, the realisation of tax could not be monitored due to inadequate internal control. Further for non-payment of tax, the defaulting vehicles were also not seized by the enforcement wing of the Transport Department. This, resulted in non-realisation of tax, additional tax and penalty of ₹ 73.41 crore.

After we pointed these out between January and February 2011, two[30] RTOs admitted audit observations involving ₹ 8.74 crore in 5,956 cases of which ₹ 6.42 lakh has been realised by RTO, Uttar Dinajpur in 52 cases and in the remaining 5,904 cases demand notice has been issued but did not furnish report on realisation. Other five[31] RTOs in 1,09,216 cases involving ₹ 64.67 crore did not furnish any reply/specific reply (October 2011).

We forwarded the cases to the Government between March and May 2011 followed by reminder issued in July 2011; they did not furnish any reply (October 2011).

5.10 Non-realisation of special fees

Rule 121 of the West Bengal Motor Vehicles Rules (WBMV), 1989 prohibits plying of heavy goods vehicles and articulated vehicles having gross vehicle weight (GVW) above 16,200 Kilograms (kg) and 22,542 kg respectively. The Government by an order issued in December 1990 relaxed this restriction and permitted plying of such vehicles on payment of a special fee at varying rates (annually) depending on the GVW. Section 4(3) of the WBMV Tax Act and Section 48 of the Motor Vehicles Tax (MVT) Act, 1988 provide that the vehicles surrendered or obtained NOC are exempted from paying tax.

We found in five[32] Regional Transport Offices (RTOs) and PVD, Kolkata between January and February 2011 that out of 8,74,361 vehicles registered under these RTOs, the owners of 1,151 heavy goods vehicles and articulated vehicles having GVW above 16,200 kg and 22,542 kg respectively did not pay the special fees for different periods between January 2006 and March 2010. The vehicles were neither surrendered nor did they obtain NOC from the taxing officers (TOs). The TOs also did not initiate any action to realise the special fees from the defaulting vehicle owners due to non-maintenance of electronic tax demand register and absence of interlinking between the tax and special fee tables. Further, the Enforcement wing could not detect such cases on the road which resulted in non-realisation of special fees of ₹ 42.75 lakh.

[30] ARTO, Uttar Dinajpur and Additional District Magistrate, Birbhum.
[31] RTOs: Coochbehar, Jalpaiguri, Murshidabad, Purulia and Director, PVD, Kolkata.
[32] RTOs: Birbhum, Jalpaiguri, Murshidabad, Purulia and Uttar Dinajpur.

After we pointed these out, two[33] TOs stated in August 2011 that in 147 cases involving ₹ 1.71 lakh the VAHAN software system did not assess the amount of special fee automatically. Additional District Magistrate, Birbhum admitted the audit observations in 233 cases involving ₹ 16.24 lakh and stated that MVIs have already been instructed to blacklist the defaulting vehicles. Reply in the remaining cases involving ₹ 24.80 lakh has not been received (October 2011).

We reported the cases to the Government between March and May 2011; followed by reminder issued in July 2011; they did not furnish any reply (October 2011).

5.11 Non-realisation of fine due to non-reference of offence cases to the Court

Rule 349 of the WBMV Rules prescribes that the compounding officer shall compound the offence with the consent of the offender and issue notice for payment of the compounded fine within seven days from the date of issue of the notice. In case of non-payment of fine within the said period, he shall refer the case(s) to the Court of Law for prosecution of the offender. However, no time frame has been prescribed for referring the case for prosecution in the Court of Law in the Act.

We found in three[34] RTOs between August 2008 and May 2009 that 242 offence cases were detected between May 2004 and March 2007, but the cases were neither compounded nor referred to the Court of Law for prosecution even after lapse of 17 to 58 months from the date of detection of the offence. This resulted in non-realisation of fine of ₹ 13.41 lakh.

After we pointed out these cases, the RTO, Malda in seven cases involving ₹ 43,000 stated that action was being taken to realise the amount but did not furnish report on realisation. In the remaining 235 cases involving ₹ 12.98 lakh, the RTOs did not furnish any reply.

The Government stated in September 2010 that out of 139 cases pertaining to two[35] RTOs, 27 cases had been referred to the Court of law by the RTO, North 24 Parganas and action to refer the rest of the cases was being taken while RTO, Purba Medinipur had realised fine of ₹ 7,530 in four cases. Report on further action taken by the RTOs in the remaining cases has not been received (October 2011).

[33] ARTO, Uttar Dinajpur and District Magistrate, Jalpaiguri.
[34] RTOs: Barasat, Malda and Purba Medinipur.
[35] RTOs: North 24 Parganas and Purba Medinipur.

EXECUTIVE SUMMARY	
Increase in tax collection	In 2010-11 the collection of taxes in respect of Electricity Duty increased by 15.72 *per cent* over the previous year which was attributed by the Department to the increased collection of electricity duty from the West Bengal State Electricity Distribution Company Ltd..
Internal audit not conducted	The Internal Audit Wing (IAW) of Finance Department is liable to conduct audit of the Directorate of Electricity Duty as the Directorate does not have any internal audit wing of its own. We found that the IAW had neither planned nor audited the Directorate of Electricity Duty or its subordinate offices.
Very low recovery by the Department against observations pointed out by us	During 2006-07 to 2010-11, we had pointed out non/short levy, non/short realisation, underassessment /loss of revenue, etc. with revenue implication of ₹ 2.31 crore in five paragraphs. Of these, the Department accepted all the paragraphs involving ₹ 1.54 crore of which only a meagre amount of ₹ six lakh was recovered by the Department.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of two units relating to receipts from electricity duty and found non-realisation/blocking of revenue and other irregularities involving ₹ 4.64 crore in six cases. The Department accepted non-realisation/blocking of revenue and other deficiencies of ₹ 4.31 crore in five cases, which were pointed out by us during the year. An amount of ₹ 5.76 lakh was recovered in 22 cases during the year 2010-11.
What we have highlighted in this Chapter	In this Chapter we present illustrative cases of ₹ 1.31 crore selected from observations noticed during our test check of records relating to receipts from electricity duty where we found non-realisation/blocking of revenue and other irregularities. Similar omissions on the part of the Assessing Authorities (AAs) were pointed out by us each year, but not only do the irregularities persist, these remained undetected by them till these were once again detected by us. These irregularities/omissions were apparent from the records made available to us by the AAs but they were unable to detect these mistakes.

Our conclusion	The functioning of the IAW may be streamlined by drafting its manual and conducting audit of the Directorate and the subordinate offices. The Department needs to initiate immediate action to recover the non-realisation, blocking of tax etc. pointed out by us, more so in those cases where our contention has been accepted.

CHAPTER VI : ELECTRICITY DUTY

6.1 Tax administration

Receipts from taxes and duties on electricity consists of receipts from taxes on consumption and sales of electricity, fees under the Indian Electricity Rules, fees for electrical inspection of cinemas and other receipts. The assessment and collection of electricity duty is governed by the Inter-State River Valley Authority Act, 1973 and the Bengal Electricity Duty Act, 1935 and is administered by the Finance Department headed by the Principal Secretary who is assisted by the Director of Electricity Duty, Chief Electrical Inspector and District Collectors.

6.2 Trend of receipts

Actual receipts from electricity duty during the years 2006-07 to 2010-11 along with the total tax receipts of the year during the same period is exhibited in the following table:

(₹ 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	479.85	526.35	(+)46.50	(+)9.69	11,694.77	4.50
2007-08	632.50	506.69	(-)125.81	(-)19.89	13,126.33	3.86
2008-09	696.10	587.52	(-)108.58	(-)15.60	14,419.15	4.07
2009-10	800.51	664.57	(-)135.94	(-)16.98	16,899.98	3.93
2010-11	710.90	769.09	(+)58.19	(+)8.18	21,128.74	3.64

The percentage of variation between the budget estimates and actual receipts was between (-) 15.60 and (-) 19.89 *per cent* during 2007-08 and 2009-10. The actual receipts increased to 8.18 *per cent* in 2010-11 showing a better budget forecast.

6.3 Cost of collection

The gross collection of receipts from electricity duty and the expenditure incurred on collection during the years 2008-09 to 2010-11 are given in the following table:

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection
0043-Taxes and duties on electricity	2008-09	587.52	235.11	40.01
	2009-10	664.57	406.46	61.16
	2010-11	769.09	375.36	48.80

Source: Finance Accounts.

We noticed that though the percentage of expenditure to gross collection sharply decreased in 2010-11, it was still abnormally high. Thus, there is considerable scope for the Government to improve the efficiency in collection.

6.4 Revenue impact of audit reports

During the last five years (including the current year's report), we pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc., with revenue implication of ₹ 2.31 crore in five paragraphs. Of these, the Department/Government had accepted audit observations in all the five paragraphs involving ₹ 1.54 crore and had since recovered ₹ 5.76 lakh. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted by the departments		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	01	0.10	01	0.09	Nil	Nil
2007-08	01	0.07	01	0.07	Nil	Nil
2008-09	01	0.83	01	0.83	Nil	Nil
2009-10	Nil	Nil	Nil	Nil	Nil	Nil
2010-11	02	1.31	02	0.55	1	0.06
Total	**05**	**2.31**	**05**	**1.54**	**1**	**0.06**

Thus, against the accepted cases involving ₹ 1.54 crore, the Department/ Government has recovered ₹ 5.76 lakh which is only 3.74 *per cent.*

We recommended that the Department revamp its revenue recovery mechanism to ensure that they could recover at least the amount involved in the accepted cases.

6.5 Working of internal audit wing

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The Internal Audit Wing (IAW) under the Finance Department is liable to conduct internal audit of the Directorate of Electricity Duty and its sub-ordinate offices. The IAW is headed by the Joint Commissioner & Ex-officio Joint Secretary, who is assisted by 20 Internal Audit Officers.

We found that the IAW had not yet planned and audited the Directorate of Electricity Duty or its subordinate offices. The IAW does not have any manual to specify its objective and procedure of working. Thus failure of internal control in several spheres resulting in leakage of revenue, fraud etc. could not be ruled out.

The functioning of the IAW may be streamlined by drafting its manual and conducting audit of the Directorate and the subordinate offices.

6.6 Results of audit

In 2010-11 we test checked the records of two units relating to receipts from electricity duty and found non-realisation/blocking of revenue and other irregularities involving ₹ 4.64 crore in six cases which fall under the following categories:

(₹ in crore)

Sl. no.	Categories	No. of cases	Amount
1	Non-assessment and non-realisation of electricity duty	2	3.60
2	Non-levy/realisation of interest for delayed payment of electricity duty	2	0.64
3	Other irregularities	2	0.40
Total		**6**	**4.64**

During the course of the year, the Department accepted non-realisation/ blocking of revenue and other deficiencies of ₹ 4.31 crore in five cases, which were pointed out in audit during the year 2010-11. An amount of ₹ 5.76 lakh was realised in 22 cases at the instance of audit.

Two illustrative cases involving an amount of ₹ 1.31 crore are mentioned in the following paragraphs.

6.7 Audit observations

Scrutiny of the records in the offices of the District Collectors indicated non-assessment and non-realisation of electricity duty and non-realisation of interest for delayed payment as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Non-realisation of interest for delayed payment of electricity duty was pointed out by us in previous reports also but the issue was not been addressed by the Department. There is need for the Government to improve the internal control system so that recurrence of such cases can be avoided.

6.8 Non-realisation of interest for delayed payment of electricity duty

Section 5 of the West Bengal Duty on Inter State River Valley Authority Electricity Act, as amended with effect from April 2003, prescribes that where the Inter State River Valley Authority or the licensee or the person liable to pay electricity duty, fails to make payment within the prescribed date, such authority or licensee or person shall be liable to pay simple interest at the rate of one *per cent* for each English calendar month of default upon the duty remaining unpaid at the end of each month of default.

We found in two[1] District Collector offices in June 2010 that two licensees[2] deposited electricity duty of ₹ 3.79 crore on eight occasions between April 2006 and May 2009 which were due between July 1995 and April 2008. For delay in payment of duty ranging between one and 73 months, interest of ₹ 1.02 crore though leviable, was not levied by the District Collectors. This resulted in non-realisation of revenue of ₹ 1.02 crore.

After we pointed these out, the Government stated in August 2011 that the West Bengal State Electricity Distribution Company Ltd. had been appointed as administrator of the Singur Haripal Rural Co-operative Society Ltd. and all the dues would be paid by the Distribution company. Regarding Chittaranjan Locomotive Works (CLW) the Government stated that the matter was sub-judice and payment would be made after final judgment. The reply of the Government is not acceptable as a letter from the authority of CLW addressed to the Collector, Burdwan in January 2011 indicates that the final Judgement had been delivered by the District Court and while CLW agreed to pay the electricity duty dues, it refused to pay the interest arguing that the delay in payment of electricity duty was not intentional on their part.

[1] Bankura and Hooghly.
[2] Chittaranjan Locomotive Works and Singur Haripal Rural Co-operative Society Ltd.

6.9 Non-realisation of electricity duty from the owners of diesel generating sets

Under Section 5(4) of the Bengal Electricity Duty Act every person generating energy from a diesel generating set (DG) for his own consumption for any Industrial or manufacturing process is liable to pay electricity duty at the prescribed rate. The Inspecting Officer (Technical), Directorate of electricity duty is responsible for estimation of electricity duty in such cases and the responsibility of assessment of electricity duty rests with the Collector.

We found in two District Collector[3] offices in June 2010 that the owners of 90 private diesel generating sets generated and consumed electric energy for different consumption periods between January 2002 and March 2010. Of these, in 11 cases of Hooghly district, the Inspecting Officer estimated duty of ₹ 2.03 lakh and sent the proposal for assessment to the Collector, Hooghly between March and September 2009. However, the electricity duty was neither assessed nor demanded by the Collector. In the remaining 79 cases under the Collector of Burdwan, the electricity duty was not estimated by the inspecting officer. We worked out the estimated electricity duty as ₹ 27.02 lakh[4]. The above omissions resulted in non-estimation and non-realisation of electricity duty of ₹ 29.05 lakh.

After we reported the cases, the Government stated in August 2011 that out of ₹ 29.05 lakh realisable, a sum of ₹ 5.76 lakh has been realised. Report on further action taken and realisation of the balance amount has not been received (October 2011).

[3] Burdwan and Hooghly.

[4] Calculated on the basis of average monthly electricity duty period from January 2005 to March 2010.

EXECUTIVE SUMMARY	
Tax collection	The assessment and collection of Stamp Duty and Registration Fees, Profession Tax and Amusement Tax are governed by separate sets of Acts and Rules. These taxes are administered by Finance (Revenue) Department headed by the Principal Secretary, Finance who is assisted by the concerned Directorates.
Internal audit not conducted	The Internal Audit Wing (IAW) of Finance Department is liable to conduct audit of the Directorates of Stamp Duty and Registration Fees, Profession Tax and Amusement Tax as the Directorate does not have any internal audit wing of its own. Records have not been made available by the IAW regarding audit conducted of these Directorates.
Results of audit conducted by us in 2010-11	In 2010 -11, we test checked the records of 67 units relating to Stamp Duty and Registration Fees, Profession Tax and Amusement Tax and found underassessment of tax and other irregularities involving ₹ 32.87 crore in 168 cases. The Department accepted underassessment and other deficiencies of ₹ 20.83 crore in 87 cases, of which 80 cases involving ₹ 20.75 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. An amount of ₹ 1.51 crore was realised in 154 cases during the year 2010-11.
What we have highlighted in this Chapter	In this Chapter we presented illustrative cases of ₹ 5.71 crore selected from observations noticed during our test check of records relating to receipts from stamp duty etc. where we found non-realisation/blocking of revenue and other irregularities. Similar omissions on the part of the Assessing Authorities (AAs) were pointed out by us each year, but not only do the irregularities persist, these remained undetected by them till these were once again detected by us. These irregularities/omissions were apparent from the records made available to us by the AAs but they were unable to detect these mistakes.
Our conclusion	**The functioning of the IAW may be streamlined by drafting its manual and widening the audit coverage. The Department needs to initiate immediate action to recover the non-realisation, blocking of tax etc. pointed out by us, more so in those cases where our contention has been accepted.**

CHAPTER VII : OTHER TAX RECEIPTS

7.1 Tax administration

The assessment and collection of Stamp Duty and Registration Fees, Profession Tax and Amusement Tax are governed by separate sets of Acts and Rules. These taxes are administered by Finance (Revenue) Department headed by the Principal Secretary, Finance who is assisted by the concerned Directorates.

7.2 Results of audit

In 2010-11 we test checked the records of 67 units relating to Stamp Duty and Registration Fees, Profession Tax and Amusement Tax and found underassessment of tax and other irregularities involving ₹ 32.87 crore in 168 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
A. STAMP DUTY AND REGISTRATION FEES			
1	Non-realisation of Stamp Duty and Registration Fees	57	19.59
2	Other cases	75	11.16
Total		**132**	**30.75**
B. PROFESSION TAX			
1	Non-realisation of Profession tax due to non-enrolment	9	0.74
2	Other irregularities	11	0.51
Total		**20**	**1. 25**
C. AMUSEMENT TAX			
1	Non/short realisation of entertainment/luxury tax	3	0.55
2	Other irregularities	13	0.32
Total		**16**	**0.87**
Grand Total		**168**	**32.87**

During the course of the year, the Departments accepted underassessment and other deficiencies of ₹ 20.83 crore in 87 cases, of which 80 cases involving ₹ 20.75 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. An amount of ₹ 1.51 crore was realised in 154 cases at the instance of audit during the year.

A few illustrative cases involving ₹ 5.71 crore are mentioned in the following paragraphs.

7.3 Audit observations

Scrutiny of the records in the offices of the Additional District Sub-Registrars (ADSRs), District Sub-Registrars (DSRs), Joint Commissioners of Profession Tax (JCPTs), Deputy Commissioners of Profession Tax (DCPTs) and Profession Tax Officers (PTOs) indicated non-realisation of stamp duty, registration fees and profession tax as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions are pointed out by us repeatedly but not only do these persist, they also remain undetected till we conduct an audit. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

A. STAMP DUTY AND REGISTRATION FEES

7.4 Non-realisation of deficit stamp duty and registration fees

Rule 3(8) of the West Bengal Stamp (Prevention of Undervaluation of Instruments) [WBS (PUI)] Rules, 2001 provides that where the registering authority has reason to believe that the market value of the property has not been truly set forth in the instrument presented for registration, he shall ascertain the market value of the property and issue notice to the executant directing him to pay the deficit stamp duty and registration fees within 30 days from the date of receipt of such notice. In the event of non-payment within the stipulated period of 30 days, the case is to be referred to the Collector/Deputy Inspector General of Registration (DIGR) for determination of the market value of the property.

7.4.1 We mentioned in paragraph 6.2.12.1 in the report of the Comptroller and Auditor General of India for the year 2008-09 regarding non-issuance of demand notice which resulted in non-realisation of deficit stamp duty and registration fees of ₹ 43.24 crore in respect of 7,634 documents presented for registration between April 2003 and March 2008. While responding to the audit paragraph the Department stated in July 2009 that District Registrars (DRs) and Deputy Inspector Generals of Registration (DIGRs) have been directed to take special initiative to take up the matter with the registering officers for urgent issue of notices in a time bound manner.

We checked the records which indicated that the directions issued by the Department regarding steps to be initiated for issue of demand notice had not been complied with. As a result, deficit stamp duty and registration fees continued to remain unrealised even after passage of considerable time.

We found in three registration offices[1] of three districts[2] between January and June 2010 that 420 documents presented for registration between April 2005 and February 2009 were kept in abeyance due to undervaluation of properties.

[1] DSR-I and II, South 24 Parganas and Registrar of Assurance-I, Kolkata.
[2] Kolkata, Paschim Medinipur and South 24 Parganas.

The registering authorities subsequently assessed the market value of the properties in all the cases but demand notices were not issued to the executants for payment of the deficit stamp duty and registration fees due to absence of time limit for issuance of demand notice in the Act/Rules. This resulted in non-realisation of revenue of ₹ 4.92 crore. (Stamp duty: ₹ 4.24 crore and registration fees: ₹ 67.76 lakh).

The Government stated in August 2011 that ₹ 96.63 lakh had been realised by the registering authorities in 87 cases. They further stated that necessary steps for initiation of certificate cases would be taken up by the respective Collectors. Report on realisation of the balance amount and further action taken has not been received (October 2011).

7.4.2 We found in the offices of the ADSR, Narayangarh, DSR-I & II, in the District of Paschim Medinipur in July 2010 that 301 documents presented for registration between June 2005 and August 2008 were kept in abeyance due to undervaluation of properties. The registering authorities subsequently assessed the market value of the properties at ₹ 6.19 crore against the set forth value of ₹ 2.16 crore and issued demand notices in March 2010 to the executants for payment of deficit stamp duty and registration fees of ₹ 31.35 lakh (stamp duty: ₹ 26.14 lakh and registration fees: ₹ 5.21 lakh) within 30 days. Though the executants did not pay the deficit stamp duty and registration fees within the stipulated period, the registering authorities did not refer the cases to the Collector/DIGR for determination of the market value of the properties even after lapse of a period between 24 and 60 months from the date of presentation of the instruments. The abnormal delay in referring the cases to the Collector/DIGR was due to non-stipulation of a time frame in the Acts and Rules for forwarding such cases.

The Government stated in July 2011 that ₹ 2.56 lakh had been realised in 17 cases and rest of the cases had been referred to the Collector/DIGR for determination of market value. They further stated that necessary steps for initiation of certificate cases would be taken up by the respective Collectors/DIGRs after observing due formalities. Report on action taken by the Collectors/DIGRs and realisation of the balance amount thereafter has not been received (October 2011).

B. PROFESSION TAX

7.5 Non-realisation of profession tax due to non-enrolment

Section 5 (2) of the West Bengal State Tax on Professions, Trades, Callings and Employments Act, 1979 provides that every person coming under the purview of the Act shall obtain a certificate of enrolment from the prescribed authority and pay tax at the prescribed rates.

We cross verified the records of 10[3] license issuing offices with those of three[4] unit offices of profession tax between October 2009 and March 2010 and found that 593[5] professionals, traders etc. had not enrolled themselves with the prescribed authority and continued their profession without payment of tax between April 2002 and March 2009. The PTOs did not detect these cases. Absence of a mechanism for cross verification with the license granting authorities in order to bring the persons evading tax into the tax net resulted in non-realisation of profession tax of ₹ 36.80 lakh.

After we pointed these out, the PTO, WB, North Unit-III, Raiganj, admitted the audit observation in March 2010 in respect of 105 professionals, traders etc. involving ₹ 3.48 lakh but did not furnish any report regarding their enrolment and realisation of tax. The DCPT, North Unit-II, Jalpaiguri and South Unit-III, Medinipur in respect of the remaining 488 professionals, traders etc. involving ₹ 33.32 lakh, did not furnish any specific reply (October 2011).

We forwarded the cases to the Government between December 2009 and April 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[3] CMOH, Jalpaiguri; Sub Divisional Officer, Jalpaiguri; District Controller of Food & Supplies, Jalpaiguri; Superintendent of Excise, Jalpaiguri; Regional Transport Officer, Jalpaiguri; Senior Post Master, Jalpaiguri; ARCS, Uttar Dinajpur; Raiganj Municipality; CMOH, Paschim Medinipur; Superintendent of Excise, Paschim Medinipur.

[4] DCPT/North Unit-II/Jalpaiguri; PTO, WB, North Unit-III, Raiganj and DCPT/South Unit-III/Medinipur.

[5] 126 licensed Foreign Liquor vendors and 125 licensed Country Liquor vendors, Owners of 84 Nursing Homes and Pathological Laboratories, Owners of six marriage halls, Owners of 39 petrol/diesel filling stations, 20 Computer Training Centres, Owners of seven Beauty Parlours, 13 Motor Training Schools, 32 Modified Rationing distributors, 11 LPG dealers, 39 cable operators, 72 Co-operative societies and 19 licensed Pachai vendors.

7.6 Non-raising of demand of profession tax against enrolled certificate holders

Section 8 of the West Bengal State Tax on Professions, Trades, Callings and Employments Act, 1979 provides that any person or employer who stood enrolled before the commencement of the year, is liable to pay profession tax at the prescribed rate. Rule 15(2) of the aforesaid Act further provides that in case of non-payment, the profession tax officers (PTOs) who are also the Assessing Authority shall serve a notice of demand directing the defaulter to pay the dues within 15 days from the date of receipt of notice.

We found in four[6] unit offices between March and August 2010 that 133[7] enrolled companies/ registered employers had not paid/short paid profession tax for different periods ending between 2002-03 and 2008-09. Of these, in 33 cases ₹ 6,850 had been paid against the total tax payable of ₹ 1.14 lakh. In the remaining 100 cases the companies/enrolled persons did not pay tax of ₹10.11 lakh. The PTOs also did not issue demand notice to the defaulters for payment of the profession tax as required under the Rules. This resulted in non-levy/realisation of profession tax of ₹ 11.18 lakh.

After we pointed out these cases, two AAs[8] stated in March and August, 2011 that ₹ 4.53 lakh has been recovered in 53 cases and in 12 cases involving ₹ 1.08 lakh demand notice in form XI has been/is being issued. DCPT, WB, North Unit-III, Raiganj in March 2010 admitted the audit observation in 33 cases involving ₹ 1.07 lakh and stated that steps were being taken to realise the dues but did not furnish report on realisation. In the remaining 35 cases involving ₹ 4.50 lakh, three[9] AAs did not furnish any specific reply.

We forwarded the cases to the Government between April and September 2010 followed by reminders issued upto July 2011; they did not furnish any reply (October 2011).

[6] JCPT/Kolkata North Range, JCPT/Kolkata South Range, PTO/West Bengal Central Unit-I/Beliaghata and DCPT, West Bengal North Unit-III, Raiganj.

[7] Companies/Private Limited Companies-95 and Registered Employer-38.

[8] JCPT/Kolkata North Range, JCPT/Kolkata South Range.

[9] JCPT/Kolkata North Range, JCPT/Kolkata South Range and PTO/West Bengal Central Unit-I, Beliaghata.

EXECUTIVE SUMMARY	
Increase in tax collection	This chapter contains cases on 'minor minerals' viz. brick earth, sand, stone, etc. under the tax head 'Mines and Minerals'. Revenue receipts from Mines and Minerals are collected by three Departments i.e Commerce and Industries, Land and Land Reforms and Finance Department and credited to 0029- "Land Revenue" and 0853- "Non-ferrous Mining and Metallurgical Industries" heads of accounts. Due to such complication in accounting the actual receipt of the Government from Mines and Minerals during last five years could not be ascertained.
Audit coverage by internal audit	Cases relating to minor minerals come under the purview of the Land and Land Reforms Department. The Internal Audit Wing (IAW) of the Land and Land Reforms Department is liable to conduct audit of minor minerals. Internal Audit Wing of the Land and Land Reforms Department planned to audit 18 DL and LROs, 10 LA Collectors, one Rent Controller and one Controller of Thika Tenancy out of 18 DL and LROs, 19 LA Collectors, two Rent Controllers and two Controller of Thika Tenancy during the year. Audit was conducted in respect of 17 DL and LROs, seven LA Collectors, one Rent Controller and one Controller of Thika Tenancy during the period which is 63 *per cent* of the units auditable and 87 *per cent* of the units planned for audit.
Very low recovery by the Department against observations pointed out by us	During 2006-07 to 2010-11, we had pointed out non/short levy, non/short realisation, underassessment /loss of revenue, etc. with revenue implication of ₹194.02 crore in 16 paragraphs. Of these, the Department accepted audit observations in 14 cases involving ₹ 10.91 crore of which only an amount of ₹ 0.53 crore was recovered by the Department.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of seven units relating to mining receipts and found underassessment of tax and other irregularities involving ₹14.43 crore in 35 cases. The Department accepted underassessment and other deficiencies of ₹14.33 crore in 30 cases which were pointed out in audit during the year 2010-11. An amount of ₹16.35 lakh was realised in 16 cases during the year.

What we have highlighted in this Chapter	In this Chapter we presented illustrative cases of ₹ 2.98 crore selected from observations noticed during our test check of records relating to non/short realisation of royalty, cess on minor minerals, non/short realisation of revenue from minerals extracted unauthorisedly, non-realisation of dead rent etc. in the offices of the District Land and Land Reforms Offices, Block Land and Land Reforms Offices, Cess Deputy Collector and Chief Mining Officer, Asansol. Similar omissions on the part of the Assessing Authorities (AAs) were pointed out by us each year, but not only do the irregularities persist, these remained undetected by them till these were once again detected by us. These irregularities/omissions were apparent from the records made available to us by the AAs but they were unable to detect these mistakes.
Our conclusion	**The Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.**

CHAPTER VIII : MINES AND MINERALS

8.1 Tax administration

The mining receipts comprise mainly the application fees for lease/permits for reconnaissance, prospecting and reserve licences, royalty for extraction of major and minor minerals, dead rent, surface rent, fines and penalties for offences and interest for delayed payment of dues etc. Primary education cess and rural employment cess is also realised for the extraction and dispatch of minerals from the holders of quarry permits and mining leases.

The assessment and collection of mining receipts is governed by the Mines and Minerals (Development and Regulation) (MMDR) Act, 1957, the West Bengal Minor Minerals (WBMM) Rules, 2002, Public Demands Recovery (PDR), Act, 1913, Cess Act, 1880 as amended in 1984 read with the West Bengal Primary Education Act, 1973 and West Bengal Rural Employment and Production Act, 1976.

The assessment and collection of most[1] of the revenue receipts from Mines and Minerals is administered by the Land and Land Reforms (L&LR) Department headed by the Principal Secretary who is assisted by the Director of Land Records and Survey (DLRs), District Land and Land Reforms Officers (DL and LROs), Sub Divisional Land and Land Reforms Officers, Block Land and Land Reforms Officers/Special Revenue Officers.

8.2 Revenue impact of audit reports

During the last five years (including the current year's report), we pointed out through our audit reports non/short levy, non/short realisation, underassessment/loss of revenue etc. with revenue implication of ₹ 194.02 crore in 16 paragraphs (including one review). Of these, the Department/Government had accepted audit observations in 14 paragraphs involving ₹ 10.91 crore and had since recovered ₹ 0.53 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted by the department		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	03	1.64	03*	1.62	01*	0.04
2007-08	02	183.51	01*	0.66	Nil	Nil
2008-09	05	1.59	04*	1.43	02*	0.10
2009-10	03	4.30	02*	4.22	02*	0.17
2010-11	04	2.98	04	2.98	03*	0.22
Total	**16**	**194.02**	**14**	**10.91**	**08**	**0.53**

***partly recovered/accepted.**

[1] Royalty on coal is assessed by the Chief Mining Officer/Mining Officers of Commerce and Industries Department, Primary Education cess and Rural Employment cess is assessed and collected by the Directorate of Commercial Taxes under the Finance (Revenue) Department.

Thus the amount recovered was only 4.86 *per cent* of the accepted paragraphs which was very low.

We recommend that the Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.

8.3 Working of internal audit wing

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The internal audit wing of the Land and Land Reforms Department was re-introduced in the year 2007-08 with the objective of fulfilling accountability obligations, complying with applicable rules and regulations, executing orderly, ethical, economic, efficient and effective operations and safeguarding resources against loss. The wing is headed by the Audit Officer cum Ex-officio Deputy Secretary who is assisted by Internal Audit Officers and Assistant Auditors. No Internal Audit Officer was posted in the IAW against the sanctioned strength of 16 whereas the existing strength of Assistant Auditors was 11 against the sanctioned strength of 14. Though the manual of the wing has been drafted, it has not yet been published. The wing planned to audit 18 DL and LROs, 10 LA Collectors, one Rent Controller and one Controller of Thika Tenancy out of 18 DL and LROs, 19 LA Collectors, two Rent Controllers and two Controller of Thika Tenancy during the year 2010-11. Audit was conducted in respect of 17 DL and LROs, seven LA Collectors, one Rent Controller and one Controller of Thika Tenancy during the period which is 63 *per cent* of the units auditable and 87 *per cent* of the units planned for audit.

8.4 Results of audit

In 2010-11, we test checked the records of seven units relating to mining receipts and found underassessment of tax and other irregularities involving ₹ 14.43 crore in 35 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
1	Non/short realisation of price of minerals	11	0.53
2	Non/short realisation of royalty and cess	11	0.51
3	Non-realisation of price of earth extracted in excess by West Bengal Infrastructure Development Corporation (WBIDC)	01	0.06
4	Other irregularities	12	13.33
Total		**35**	**14.43**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 14.33 crore in 30 cases, which were pointed out in audit

during the year 2010-11. An amount of ₹ 16.35 lakh was realised in 16 cases at the instance of audit during the year.

A few illustrative cases involving ₹ 2.98 crore are mentioned in the following paragraphs.

8.5 Audit observations

Scrutiny of the records in the offices of the District Land and Land Reforms Offices, Block Land and Land Reforms Offices, Cess Deputy Collector and Chief Mining Officer, Asansol indicated non/short realisation of royalty, cess on minor minerals, non/short realisation of revenue from minerals extracted unauthorisedly, non-realisation of dead rent and non-realisation of water rates as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions are pointed out by us repeatedly but not only do they persist, they 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 cases can be avoided.

8.6 Non-assessment and non-levy of water rate

Under Rule 27 (i)(d) of the Mineral Concession Rules, 1960 and terms and conditions of the mining lease, the lessee shall pay water rate at the prescribed rate in respect of all parts of surface of land occupied or used by him. Water rate has been fixed at ₹ 54 per acre per annum under the West Bengal Irrigation (Imposition of Water Rate) Act, 1974.

We mentioned in paragraph 6.2.6 of the Report of the Comptroller and Auditor General of India for the year 2005-06 (Revenue Receipt) regarding non-assessment of water rates in respect of land occupied or used by lessees for extraction of coal for various periods between May 1999 and September 2004. While responding to the audit observation, the Cess Deputy Collector (CDC), Asansol stated in February 2006 that a clarification had been sought from the Government as to which authority was responsible for assessment and collection of water rates. The Government stated in June 2006 that the Finance Department would take up the matter with the Irrigation and Waterways Department and would decide the authority for assessment.

We checked the records which indicated that neither had the Finance Department taken up the matter nor has any direction prescribing the authority for assessment and collection of water rate been issued. As a result water rates continued to remain unassessed and unrealised.

We found in the office of the CDC and Chief Mining Officer (CMO), Asansol in March 2010 that water rate on 1,64,475.46 acres of land used or occupied by 11 lessees for mining operations between 2007-08 and 2008-09 was not assessed. This resulted in non-assessment and consequent non-realisation of water rate of ₹ 1.78 crore.

After we reported the cases, the Government while accepting the audit observation stated in August 2011 that the Finance Department has still not prescribed the authority to assess and collect water rate. However, the Commerce and Industries Department has requested the Finance Department

to take up the matter. Report on further development has not been received (October 2011).

8.7 Non/short realisation of revenue from minerals extracted unauthorisedly

Under section 21(5) of the Mines and Minerals (Development and Regulation) Act, 1957 as amended from time to time and Rules made thereunder, no person is entitled to undertake mining operation except under the authority of a valid quarry permit. In the event of unauthorised extraction of minor minerals, apart from other penal action, the State Government is empowered to recover the minerals raised unlawfully or where such minerals have already been disposed of, the price thereof.

We found in one office of the Executive Engineer and 16 BL and LR offices under five[2] DL and LR offices between August 2008 and May 2010 that in 387 cases 367 brickfield owners and two contractors unauthorisedly extracted 1,21,41,354 cft of brick earth between 2005-06 to 2008-09 for manufacturing bricks and other purposes. Of these in 35 cases 33.41 lakh cft of brick earth was extracted in excess of permitted quantity between 2006-07 and 2008-09 and the rest without any valid quarry permit. Though the unauthorised extraction of earth was in the knowledge of the DL and LR offices, they did not initiate any action to recover the price[3] of the earth. Of these, in 141 cases price of earth of ₹ 63.93 lakh though realisable was not realised while in the remaining 246 cases ₹ 13.85 lakh was realised as royalty and cess instead of realisable price of ₹ 20.45 lakh. This resulted in non/short realisation of revenue of ₹ 70.53 lakh.

After we reported the cases, the Government stated in August 2011 that three[4] DL and LROs had realised ₹ 7.06 lakh out of ₹ 48.50 lakh realisable. Report on realisation of the balance amount and action taken by other DL and LROs and Executive Engineer has not been received (October 2011).

[2] Burdwan (East), Hooghly, Malda, Purulia and Uttar Dinajpur.
[3] Brick earth ₹ 30 per 100 cft for 1981 with an increase of ₹ 1.50 per 100 cft each year.
[4] Burdwan (East), Hooghly and Malda.

8.8 Non/short realisation of royalty and cess on minor minerals

Under Rule 27(1) of the Minor Minerals Rules, 2002 extraction of minor minerals is permissible on obtaining quarry permit issued by the Collector on payment of royalty in advance at the rates prescribed by the Government. Besides, under the provisions of the Cess Act, 1880 as amended in 1984, read with the West Bengal Primary Education Act, 1973 and the West Bengal Rural employment and Production Act, 1976 holders of quarry permits under the West Bengal Minor Minerals Rules, 2002 are also liable to pay cess at the rate of ₹ 15 per 100 cft.

We found in five[5] DL and LR offices between September and December 2009 that in 137 cases quarry permit holders between 2005-06 and 2008-09 extracted and dispatched 101.72 lakh cft. of minor minerals[6], of which in four cases the DL and LRO, Jalpaiguri did not realise royalty and cess[7] of ₹ 3.36 lakh for extraction of 3.56 lakh cft. of sand and 75000 cft. of stone while in another 133 cases the DL and LROs realised ₹ 19.53 lakh as royalty and cess against the realisable amount of ₹ 43.40 lakh for extraction of 97.40 lakh cft of minor minerals[8]. This resulted in non/short realisation of royalty and cess of ₹ 27.23 lakh.

After we reported the cases, the Government stated in August 2011 that out of ₹ 9.14 lakh realisable ₹ 7.81 lakh has been realised by DL and LROs Burdwan and Jalpaiguri. Report on realisation of the balance amount and further action taken by other DL and LROs has not been received (October 2011).

8.9 Non-assessment and non-realisation of dead rent

Under the provisions of Section 9A of the Mines and Minerals (Regulation and Development) Act, 1957 the holder of a mining lease is liable to pay dead rent at the prescribed rate. However, where the holder of such mining lease becomes liable to pay royalty for any mineral removed or consumed by him or by his agent or sub-lessee from the leasehold area, he is liable to pay either such royalty or the dead rent in respect of that area, whichever is higher.

We found in the office of the Chief Mining Officer (CMO), Asansol in March 2010 that in 12 collieries under the Eastern Coalfields Ltd. (ECL), having leasehold area of 7,548.67 hectares, although no mining operation was carried out during the years 2007-08 and 2008-09, the CMO did not initiate any action for the assessment of dead rent. This resulted in non-assessment and non-realisation of dead rent of ₹ 22.58 lakh.

[5] Burdwan (West), Jalpaiguri, Malda, Purulia and Uttar Dinajpur.
[6] Brick earth-77.80 lakh cft., Sand-23.16 lakh cft and stone-75000 cft.
[7] Public works cess : ₹ 3, Road cess : ₹ 3, Primary education cess : ₹ 6, Rural employment cess : ₹ 3.
[8] Brick earth 77.80 lakh cft., Sand 19.60 lakh cft.

After we reported the cases, the Government stated in September 2011 that dead rent of the collieries has been assessed by the CMO, Asansol and an amount of ₹ 7.45 lakh has been realised. Report on realisation of the balance amount has not been received (October 2011).

EXECUTIVE SUMMARY	
Tax collection	Receipts from Police, Forests, Public Works and Irrigation and Waterways are major non-tax revenue of the State government. The assessment and collection of these non-tax revenue are governed by separate sets of Acts and Rules which are administered by the Principal Secretaries/Secretaries of the concerned Departments who are assisted by the respective Directorates.
Results of audit conducted by us in 2010-11	In 2010-11, we test checked the records of 25 units relating to non-tax receipts and found underassessment of revenue and other irregularities involving ₹ 146.46 crore in 31 cases. The Department accepted underassessment and other deficiencies of ₹ 69.24 crore in 10 cases, which were pointed out in audit during the year 2010-11.
What we have highlighted in this Chapter	In this Chapter we present a performance audit on "Assessment and Collection of Police Receipts" with a financial effect of ₹ 131.38 crore. We have highlighted the following points in the chapter: • Non-implementation and incorrect determination of average basic pay after implementation of ROPA, 2009 resulted in short recovery of police cost of ₹ 64.62 crore. • Police cost was demanded on the basis of actual number of personnel deployed instead of sanctioned strength resulting in short recovery of ₹ 14.62 crore. • Lack of initiative on the part of the Home Department to obtain audit certificate led to non-raising of demand for re-imbursement of expenditure of ₹ 85.85 crore. • Irregular adjustment of charges by the Railway authorities led to short realisation of police cost of ₹ 18.45 crore. • Unserviceable vehicles not traceable in the depot led to loss of revenue of ₹ 35.56 lakh.
Our conclusion	**We noticed a number of system and compliance deficiencies in functioning of the Home (Police) Department in respect of assessment and collection of the police cost. Absence of specific provisions in the Police Regulations of Bengal governing the function of the Department, adversely affected the collection of revenue.**

	Non-revision of average basic pay after implementation of ROPA, 2009, non-revision of the license/certificate for hotels/restaurants/bars/shops and absence of provision of interest for non/delayed payment of police cost adversely affected the revenue realisation. Lack of effective initiative for claiming re-imbursement of police cost from the Central Government and other states regarding agencies function and election duty respectively. Weak control mechanism of the Department led to non-realisation of police cost from the organisation as per sanction strength of government offices. Considerable amount of government revenue remained unrealised due to non-disposal of condemned vehicles and unclaimed properties.

CHAPTER IX : OTHER NON-TAX RECEIPTS

9.1 Tax administration

Receipts from Forests, Public Works, Police and Irrigation and Waterways are major non-tax revenue of the state Government. The assessment and collection of these non-tax revenue are governed by separate sets of Acts and Rules which are administered by the Principal Secretaries/Secretaries of the concerned Departments who are assisted by the respective Directorates.

9.2 Results of audit

In 2010-11 we test checked the records of 25 units relating to non-tax receipts and found underassessment of revenue and other irregularities involving ₹ 146.46 crore in 31 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	No. of cases	Amount
Police Receipts			
1	**Assessment and collection of Police Receipts (A Performance audit)**	**1**	**131.38**
Forest			
1	Loss of Government revenue due to theft of timber	3	0.30
2	Other cases	14	0.30
Total		**17**	**0.60**
Departmental Receipts			
1	Non/short levy of Water rate	3	09.18
2	Other cases	10	05.30
Total		**13**	**14.48**
Grand Total		**31**	**146.46**

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 69.24 crore in 10 cases, which were pointed out in audit during the year 2010-11.

A performance audit on **"Assessment and collection of Police Receipts"** with a financial effect of ₹ 131.38 crore is mentioned in the following paragraphs.

9.3 A Performance audit on "Assessment and Collection of Police Receipts"

Highlights

- Non-implementation and incorrect determination of average basic pay after implementation of ROPA, 2009 resulted in short recovery of police cost of ₹ 64.62 crore

(Paragraph 9.3.6)

- Police cost was demanded on the basis of actual number of personnel deployed instead of sanctioned strength resulting in short recovery of ₹ 14.62 crore.

(Paragraph 9.3.11.3)

- Lack of initiative on the part of the Home Department to obtain audit certificate led to non-raising of demand for re-imbursement of expenditure of ₹ 85.85 crore.

(Paragraph 9.3.12.1)

- Irregular adjustment of charges by the Railway authorities led to short realisation of police cost of ₹ 18.45 crore.

(Paragraph 9.3.13)

- Unserviceable vehicles not traceable in the depot led to loss of revenue of ₹ 35.56 lakh.

(Paragraph 9.3.20.1)

9.3.1 Introduction

During 2005 to 2010 the receipts of the Police Department, Government of West Bengal accounted for between 1.34 and 5.71 *per cent* of the total non-tax revenue of the State. The receipts comprise recovery of cost for deployment of police force to different organisations[1] including Central and other State Governments either permanently or on a temporary basis. Recovery from the Central Government arises by way of re-imbursement of expenditure for discharging agency functions like registration and surveillance of foreigners, international border check post duties and passport work etc.

A part of the receipts comes from fees and fines collected for granting licences to shops, hotels and restaurants and for issue of certificates to restaurants with foreign liquor (FL) on-shop/bars etc. in Kolkata. Fees for issue of arms and ammunitions licence, sale proceeds of unserviceable vehicles and unclaimed confiscated properties also form part of police receipts.

[1] Banks, Local bodies, Post offices, Central & State Government undertakings.

The system of assessment, collection and accounting of receipts are governed by the Police Act, 1861, the Calcutta Police Act, 1866, the Calcutta Suburban Police Act, 1866, the Arms Act, 1959, the Police Regulations of Bengal, 1943 made thereunder and the Government orders and notifications issued from time to time.

9.3.2 Organisational set up

The Additional Chief Secretary to the Government of West Bengal, Home (Police) Department is the administrative head of the Department. He is assisted by the Director General and Inspector General of Police, West Bengal (DG and IGP, WB) and the Commissioner of Police, Kolkata (CP, Kolkata). The DG and IGP is assisted by the Directors General (DGs), Additional Directors General (ADGPs), Inspectors General (IGs), Deputy Inspectors General (DIGs) and Superintendents of Police (SPs)/Commandants.

The responsibility of assessment and collection of police cost for deployment of police personnel to the Central Government Departments including the Railways and the other State Governments lies with the DG & IGP, whereas in districts, for deployment of police personnel to banks and individuals etc., the responsibility lies with the concerned SPs/Commandants. In Kolkata, such responsibility lies with the Commissioner of Police (CP) who is assisted by Additional Commissioners (Addl. Cs), Joint Commissioners (Jt. Cs), Deputy Commissioners (DCs) and Assistant Commissioners (ACs) of Police.

9.3.3 Audit objectives

The performance audit was conducted with a view to ascertain:

- the adequacy and effectiveness of the system in the Department for assessment and collection of revenue;
- the extent of compliance with the provisions of Acts, Rules and Departmental instructions;
- lacunae in Acts/Rules leading to loss/blocking of revenue; and
- efficacy of the internal control system of the Department.

9.3.4 Audit methodology

We conducted the performance audit between October 2010 and May 2011 covering the period between 2005-06 and 2009-10. Ten out of 19 SP offices were selected on the basis of stratified random sampling method. We divided the 19 units in three strata on the basis of collection of revenue and selected 100 *per cent* i.e. three units from the first stratum, 50 *per cent* i.e. five units from the second stratum and 10 *per cent* i.e. two units from the third stratum. We also scrutinised the records maintained in the offices of CP, Kolkata and DG and IGP, West Bengal.

9.3.5.1 Trend of revenue

The budget estimate, revised estimate, actual collection of revenue, variation in actual receipts in respect of BE and RE and percentage of variations between 2005-06 and 2009-10 are mentioned in the following table:

(₹ in crore)

Year	Budget estimates (BE)	Revised budget estimates (RE)	Actual receipts	Variation excess(+)/ shortfall (-)	Percentage of variation in respect of BE excess (+)/ shortfall (-)	Percentage of variation in respect of RE
2005-06	88.89	92.03	57.05	(-) 31.84	(-) 35.81	(-) 38.01
2006-07	124.03	124.13	71.33	(-) 52.70	(-) 42.49	(-) 42.46
2007-08	132.64	102.39	63.02	(-) 69.62	(-) 52.49	(-) 38.45
2008-09	169.77	129.24	66.88	(-) 102.89	(-) 60.61	(-) 48.25
2009-10	151.12	97.59	68.67	(-) 82.45	(-) 54.56	(-) 29.63

The percentage of shortfall in actual receipts varied between 35.81 and 60.61 in respect of BEs and between 29.63 and 48.25 in respect of REs.

The Department stated (August 2011) that budget estimates for police receipts are framed by adding a common growth percentage in the Head quarters since no feed back is received from the district/local offices. As a result a difference between budget estimates and actual receipts is observed at the end of each year.

9.3.5.2 Arrears of revenue

DIGP(O), West Bengal in his Memo no. 5428(40)Fin/Bt of 26th December 2005 instructed to maintain a Control register for watching assessment and recovery of Police Cost. The said control register for watching the recovery of arrears of police cost is not maintained either at the district level or at the Police Directorate.

In the absence of a control register to monitor recovery of arrears of police cost in the SP offices and CP- Kolkata, the actual arrears of revenue could not be ascertained in audit. Though the DIG of Police (O) instructed in (December 2005), the SP offices to submit progress report on demand for police cost and its recovery, consolidated position of arrears and year wise break up of arrears of revenue were not available in the Directorate office.

Opening balance of arrears of police cost and annual accumulation during the period 2005-06 to 2009-10 as available from eight[2] SP offices and CP-Kolkata is given below:

(₹ in lakh)

Opening balance as on 01-04-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total
1,468.45	279.16	289.00	323.40	495.23	591.65	3,446.89

The Joint Secretary, Home (Foreigners and NRIs), West Bengal raises claim against the Ministry of Home and External Affairs for obtaining re-imbursement of expenditure incurred by the State Government in connection with agency functions[3] performed by the State Police Department. The office

[2] Paschim Medinipur, Purba Medinipur, North 24 Parganas, Bankura, Purulia, Burdwan, Nadia and Darjeeling.

[3] Agency function i.e. Registration and surveillance of foreigners, immigration check post, citizen matters and passport work.

did not maintain control register for monitoring recovery of arrears of revenue. From the statement of arrears of revenue it was seen that an amount of ₹ 125.49 crore for the period from 1997-98 to 2004-05 was payable by the Ministry of Home Affairs, Government of India as detailed below:

(₹ in crore)

1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	Total
8.44	17.14	22.38	16.94	15.14	17.66	13.57	14.22	125.49

Though the demands were raised between February 2001 and August 2007, the amount was neither paid by the Government of India, nor did the Department pursue for recovery further.

Records of DG & IGP West Bengal revealed that demand for obtaining re-imbursement of expenditure for deployment of force in GRP[4] of ₹ 6.09 crore and ₹ 8.21 crore relating to the period 2008-09 and 2009-10 respectively was raised against Kharagpur and Siliguri divisions respectively between March 2010 and March 2011. But the Directorate office did not take any initiative for realisation of Government revenue.

Absence of control mechanism and lack of pursuance for recovery of arrear revenue has led to accumulation of arrears for ₹ 174.25 crore during the period from 1997-98 to 2009-10.

Audit Findings

System deficiencies

9.3.6 Non-revision and incorrect determination of average basic pay after implementation of ROPA, 2009

The Police Regulation of Bengal (PRB) 1943 provides that police cost will be recovered for supply of police forces to banks, post offices, other Government and non-Government organisations. G.O. No. 273(2) dated 18.01.2007 prescribes that police cost will consist average basic pay plus 90 *per cent* of the average basic pay plus dearness allowance at prevalent rates. Prior to April 2008, the average basic pay was calculated as per G.O. dated 06.06.2006. The Revision of Pay and Allowance Rules (ROPA), 2009 was published in February 2009 and was implemented in the state w.e.f. 01.04.2008. The demand for police cost is to be raised on revised average basic pay as per ROPA, 2009 from April 2008.

We found in seven SP offices[5] that police cost was demanded on the basis of pre-revised average basic pay instead of revised average basic pay[6] as per ROPA Rules, 2009. ROPA, 2009 was published in February 2009 and was effective from April 2008. Average basic pay for the assessment of police cost was not revised and no

[4] Government Railway Police.

[5] SPs: Darjeeling, Coochbehar, Nadia, Paschim Medinipur, North 24 Paraganas, Bankura and Burdwan.

[6] Revised average basic pay = average of minimum and maximum of basic pay + grade pay.

arrears were recovered from the borrowing organisations till the date of audit (May 2011). This resulted in short demand and short recovery of police cost of ₹ 12.53 crore.

In eight SP offices[7] ROPA, 2009 was implemented from April 2009. While implementing ROPA, 2009 the police cost was to be assessed on the basis of revised average basic pay as stipulated in G.O. issued in June 2006. In six offices instead of taking average of the minimum and maximum of the new pay scale of each category staff as per ROPA, 2009, the average basic pay of the old scale was converted into revised average basic pay by multiplying it with 1.86 plus grade pay and in two offices revised basic pay drawn by each police personnel deployed, was taken for the assessment of police cost. Incorrect determination of average basic pay resulted in short demand and short recovery of police cost of ₹ 7.08 crore.

In two SP offices[8] and C P, Kolkata ROPA, 2009 was implemented from April 2008 but police cost was not assessed on the basis of revised average basic pay. Incorrect determination of average basic pay resulted in short levy and short recovery of police cost of ₹ 45.01 crore.

The short demand and short recovery is shown in the table below:

(₹ in crore)

Nature of observation / No. of offices involved	Period of demand	Period over which demand raised	No. of cases	No. of organis-ations involved	Amount of police cost		Short demand & short recovery
					To be demanded	Actually demanded	
Non-revision of average basic pay after implementation of ROPA, 2009 / Seven SP offices	April 2008 to March 2010	Between July 2008 and April 2010	272	46	18.36	5.83	12.53
Incorrect determination of average basic pay and delayed application. / Eight SP offices	April 2009 to March 2010	July 2009 and April 2010	197	42	15.76	8.68	7.08
Incorrect determination of average basic pay. / Two SP offices and CP Kolkata	April 2008 to March 2010	July 2008 and April 2010	278	65	93.17	48.16	45.01
Total			**747**	**153**	**127.29**	**62.67**	**64.62**

The Government in their reply (July 2011) stated that orders had been revised in May 2011 and Police Directorate had admitted the delay in revision of average basic pay. They further stated that average basic pay is calculated on the basis of fitment table in the newly created bands and not on previous pay scales.

[7] SPs: Darjeeling, Coochbehar, Nadia, Paschim Medinipur, Purba Medinipur, North 24 Paraganas, Bankura and Burdwan.

[8] Bankura and Birbhum.

The reply is not tenable as the revised basic pay in the fitment table is in relation to pre-revised scale and not in conformity with the principle stipulated in G.O. issued in June 2006 and January 2007.

The Government may consider revising of the orders May 2011 to bring them on the principles enumerated in the orders of June 2006 and January 2007 for working out of the police cost.

9.3.7 Non-revision of licence/certificate fee of hotels, restaurants, bars etc.

Under the provisions of the Calcutta Police Act, 1866, CP, Kolkata grants licences to the owners of restaurants, snacks bars, hotels, sweet meat shops and other types of shops in Kolkata. As certification officer the CP issues certificates to the owners of foreign liquor (FL) on-shop/bar and charges licence/ certificate fee at the rates mentioned in the Act.

We found in the office of the CP, Kolkata that licence fees and certification fees were being collected at the rate prescribed in 1978 and the rates were not revised in the last 32 years. In March, 2004 the Joint CP, Kolkata proposed for revision of different licence fees and certification fees pointing out the prospect of growth in collection of revenue. The Commissioner of Excise, West Bengal hiked the licence fee 11.11 times (over a period of 25 years) in 2005-06 in respect of the rate prevailing in 1981. Taking into account the data regarding number of restaurants, bars etc. contained in the statement annexed to the proposal of the Joint CP in March, 2004 the loss of revenue due to non-revision had been worked out at ₹ 2.52 crore per year and ₹ 12.61 crore for the period from 2005-06 to 2009-10.

After we pointed this out, the CP, Kolkata did not furnish any reply. Government accepted (July 2011) the audit observation and stated that the matter would be looked into.

The Government may consider revising the rates of license and certification fees for hotels, restaurants, shops etc. for augmentation of revenue.

9.3.8 Absence of provision of interest for non/delayed payment of police cost

Section 33 of the West Bengal Value Added Tax Act, 2003, Section 27 of the West Bengal State Tax on Professions, Trades, Callings and Employments Act, 1979 and Section 5A of the Bengal Electricity Duty Act, 1935 prescribe interest at the rate of 12 *per cent* per annum for non/delayed payment of Government dues. However, the Police Regulation of Bengal, 1943 does not provide for levy of interest for non/delayed payment of police cost.

We found in nine SP offices[9] and CP, Kolkata that Police authorities raised a demand of ₹ 37.39 crore in 386 cases for realisation of police cost for the period from 1997-98 to 2009-10. However, the police cost was not paid by the borrowing organisations in 348 cases involving ₹ 36.50 crore even after expiry of two to 291 months after issue of demand notice whereas in 38 cases police cost of ₹ 89 lakh was paid after delay ranging between one and 76 months from the date of raising demand. However, no interest could be charged for non/delayed payment of police cost due to absence of a provision in the PRB.

After we pointed this out, the SPs did not furnish any reply. Government in their reply stated (July 2011) that a decision in this regard would be taken.

The Government may consider incorporating the provision of interest in the PRB for non/delayed payment of police cost.

9.3.9 Non-maintenance of records and registers

There exists no system to review the assessment, demand and collection of police cost by the higher authority. Memo no. 5428(40) Fin/Bt dated 26.12.2005 issued by DIGP (O), West Bengal prescribed a control register for watching assessment and recovery of police cost but the format of the register has not been prescribed in the said order.

9.3.9.1 We found in the offices of the Reserve Inspector of all the districts that no control register for watching the deployment of force on permanent basis was maintained. In absence of the register the number of sanctioned strength of police personnel and actual number of police personnel deployed in various organisations on a permanent basis could not be ascertained from the office of the Reserve Inspector of the districts. Thus, we could not ascertain the status of police cost realisable and realised in the districts.

9.3.9.2 Demand and collection register for deployment of Police force to cultural functions[10] is required to be maintained in the district office centrally to keep a watch and control over realisation of police cost for such functions. Such register had not been prescribed under the Acts and Rules. Though Memo No. 5428(40) Fin/Bt dated 26.12.2005 prescribed the control register but format had not been described. None of the district offices maintained

[9] SPs: North 24 Parganas, Burdwan, Purba Medinipur, Paschim Medinipur, Nadia, Coochbehar, Darjeeling, Purulia and Bankura.

[10] Musical soiree, Jatra show etc.

such register centrally except Bankura and Purulia. In other districts, though a register to this effect was maintained by the SDPO/Addl. SP, the said registers were never submitted to the SP of the concerned district. In North 24 Parganas and Paschim Medinipur districts no such register was maintained either at the district level or at the sub-division level. This indicates lack of control of the district authority over the deployment of force for cultural functions in the district.

Government accepted (July 2011) the audit observation and stated that action would be taken accordingly.

The Government may consider prescribing the format of control register, demand and collection register etc. for a better control over the assessment and collection of police cost and uniformity of record maintenance in the sub-ordinate offices.

9.3.10 Non-raising of demand of police cost on IPL authority

Under the provisions of the PRB, 1943, police cost for deployment of police force is realisable from the requiring authority.

We found in office of the Brigade Reserve Inspector, Bodyguard Line, under the CP, Kolkata that 1,766 number of police personnel were deployed in each of the seven matches of Indian Premier League (IPL) held at the Eden Gardens, Kolkata during March and April 2010. IPL Twenty-20 Cricket Match was organised by the IPL authority for commercial purpose. The police force was deployed for security of the participating teams, VIPs and spectators. Though the deployment involved police cost of ₹ 1.80 crore[11] but the Department did not raise demand for police cost on the IPL authority.

Further, the CP, Kolkata did not furnish information regarding deployment of police force in IPL matches organised in Kolkata during 2008 and 2009 though sought for. In the absence of information, non-raising of demand for police cost on the IPL authority for the year 2008 and 2009 could not be ascertained in audit. The Department had not adopted any policy for raising demand for police cost from IPL authority though the IPL matches were meant for commercial purposes and were likely to be held every year in future.

After we pointed this out, the CP, Kolkata did not furnish any reply. The Government accepted (July 2011), the audit observation and stated that the matter would be looked into.

[11] For seven days at the rate of ₹ 25.73 lakh per day.

Compliance deficiencies

9.3.11 Non-observance of government orders and administrative instructions

Order no.5428(40) dated 26.12.2005 of the DIG (O) West Bengal prescribed different allowances and charges like leave contribution, pension contribution, contributory cost for arms and ammunition etc. are to be added to the average basic pay for assessment of police cost. It also instructed that police cost is to be recovered on sanctioned strength of force and for the full period for which the posts were sanctioned.

G.O. 273(2) dated 18.01.2007 prescribes for inclusion of 90 *per cent* of the average basic pay with average basic pay in lieu of different allowances and charges granted by the Government.

9.3.11.1 We found in three SP offices[12] and CP, Kolkata that while assessing police cost leave salary, pension contribution and contributory cost for arms and ammunition for the period from January 2006 to March 2008 were not included and TA, ration allowance, DA and pension contribution were included at lower rates. This resulted in short demand and short levy of police cost worth ₹ 44.25 lakh in 76 cases relating to 26 organisations.

After we pointed this out, the Government accepted (July 2011) the audit observation. We await report on realisation (October 2011).

9.3.11.2 We found in three SP offices[13] that the district authority did not implement the provisions of the G.O. dated 18.01.2007. Non-observance of the order led to short assessment and short recovery of police cost in 77 cases of 19 organisations for the period from January 2007 to March 2008 amounting to ₹ 13.91 lakh.

After we pointed this out, the Government accepted (July 2011) the audit observation. We await report on realisation (October 2011).

9.3.11.3 We found in nine district offices[14] and CP, Kolkata that police cost in 425 cases relating to 26 organisations was demanded for ₹ 9.28 crore on the basis of number of police force actually deployed instead of ₹ 23.90 crore on the basis of their sanctioned strength for the period from January 2006 to March 2010. This resulted in short demand and short recovery of police cost of ₹ 14.62 crore.

After we pointed this out, the Government accepted (July 2011) the audit observation. We await report on realisation (October 2011).

[12] SPs: Darjeeling, Coochbehar and Nadia.
[13] SPs : Darjeeling, Coochbehar and Burdwan.
[14] SPs: Darjeeling, Coochbehar, Nadia, Paschim Medinipur, Purba Medinipur, Burdwan, Birbhum, North 24 Parganas and Purulia.

9.3.11.4 We found from the records of deployment of force in the office of the Reserve Inspector, Darjeeling that one head constable and six constables were posted at Bagdogra Airport till the date of audit (March 2011) against 16 posts[15] sanctioned by the Home (Police) Department under their order of September 1978 for enforcing security/anti hijacking measures at Bagdogra Airport.

The Bagdogra Airport authority was liable to pay police cost on actual strength of force from April to December 2005 and on sanctioned strength from January 2006 to March 2010. But no demand was raised by the SP, Darjeeling to recover police cost from the Airport Authority. This resulted in non-raising of demand of ₹ 2.48 crore for the period from 2005-06 to 2009-10.

The Government in their reply stated (July 2011) that the matter had been taken up with the Central Government.

9.3.12 Non-raising of demand for agency function

In terms of Government of West Bengal order of March 2002, the State Police Department discharges agency function on behalf of Ministry of Home/External Affairs, Government of India on the basis of 100 *per cent* re-imbursement of expenditure by deploying police force for registration and surveillance of foreigners, passport & immigration and immigration check post on international border.
The Joint Secretary Home (F & NRIs) obtains statement of expenditure (SOE) from Home (Police) Department and submits it to the Principal Accountant General (Audit). PAG (Audit) issues audit certificate regarding correctness of expenditure. The Joint Secretary Home (F & NRIs) Department on the basis of the audit certificate prefers claim for re-imbursement of expenditure for agency functions.

9.3.12.1 We found that the Joint Secretary, Home (F & NRIs) Department did not obtain audit certificate from the office of the Principal Accountant General (Audit), WB for re-imbursement of expenditure for agency functions[16] of ₹ 85.85 crore relating to the period from 2007-08 to 2009-10. Due to lack of initiative on the part of the Home (F and NRIs) Department, demand for re-imbursement of expenditure of ₹ 85.85 crore was not raised till the date of audit.

After we pointed this out, the Government in their reply stated (July 2011) that action would be taken. We await further report on action taken by the Government (October 2011).

[15] Inspectors-01, Sub-Inspectors (Male)-04, Sub-Inspectors (Female)-02, Assistant Sub-Inspectors-02, Head Constable-01, Constable-06.

[16] Agency functions i.e. Registration and surveillance of foreigners, immigration check post, citizen matter and passport works.

9.3.12.2 We found in the office of the Joint Secretary, Home (F & NRIs) Department that office of the PAG (Audit), West Bengal issued certificates of expenditure for ₹ 38.24 crore for 2005-06 and 2006-07 between May 2007 and March 2008 but demand for ₹ 32.31 crore was raised between May 2007 and April 2008 to the Ministry of Home Affairs, Government of India (GOI) for re-imbursement. Demand for the balance amount of ₹ 5.93 crore and further demand of ₹ 4.23 crore in connection with passport and immigration for the years 2003-04 and 2004-05 were not raised against the Ministry of External Affairs, GOI. This resulted in non-raising of demand and consequent non-realisation of police cost of ₹ 10.16 crore for agency functions.

After we pointed this out (May 2011) the Government in their reply stated (July 2011) that action would be taken. We await further report on action taken by the Government (October 2011).

9.3.13 Short realisation due to irregular adjustment of charges by the Railway authority

As decided by the Railway Board in consultation with the Ministry of Home Affairs, Government of India, the expenditure of Government Railway Police (GRP) will be shared between the State Government and Railways on 50:50 basis. The DGP of the state raises demand for re-imbursement of the expenditure against the Railway Administration zone-wise. For this purpose an authentication in respect of correctness of the charges booked under the concerned heads of the state accounts has to be obtained from the PAG (A & E) before raising demand from the Railways.

We found in the office of the DG & IGP, WB that claim of ₹ 126.23 crore for the period from 2005-06 to 2009-10 (50 *per cent* of the cost of police force deployed) was raised by the State Government against the Railway authority. But the Railway authority while making payment between February 2007 and March 2011 adjusted ₹ 18.45 crore against their claims such as electric charges, rent, maintenance of level crossing etc. The memorandum of Railway Board did not stipulate any provision for adjustment of any charge from the reimbursable amount by the Railway authority. This irregular adjustment of the railway claims against the reimbursable amount resulted in short realisation of ₹ 18.45 crore.

After we pointed this out (April 2011), the Government in their reply stated (July 2011) that initiatives had been taken and letter issued to the Railway Board. We await further development in the matter (October 2011).

9.3.14 Lack of initiation for recovery of arrears

Provisions of the PRB prescribe that the borrowing organisations are liable to pay the amount of police cost in full as per demand notice. If there is any non/short payment in respect of demand notice, the arrears should be pursued effectively by the Department for recovery of the dues.

We found in the office of the DG & IGP, WB that the office obtained authentication from the PAG (A&E), WB in respect of the correctness of expenditure incurred and booked in the state accounts for deployment of force in GRP of two railway divisions for different periods[17] and prepared statement of police cost for each railway division for raising demand. The DG & IGP issued between December 2006 and March 2010 demand of ₹ 10.58 crore to the Railway divisions out of which ₹ 10.01 crore (including adjustment) was realised between March 2007 and October 2010. No initiation was taken by the Department for realisation of the balance government dues. This resulted in short realisation of police cost of ₹ 57 lakh from the railway.

After we pointed this out (April 2011), the Government in their reply stated (July 2011) that the cost of deployment would be recovered. We await further report on realisation (October 2011).

9.3.15 Non-raising of demand of police cost inspite of specific order for deployment

DIG (O), WB in his order of December 2005, directed the Superintendent of Police to recover police cost on the sanctioned strength and for the full period for which the posts are sanctioned.

We found in three SP offices[18] that sanction orders were issued by the Government between October 1990 and March 2008 for deployment of police force in banks, Central Government undertaking for the purpose of guarding cash chests/security reason etc. But the SPs did not deploy the police force as per sanction order. No specific reason for non-deployment of the police force was furnished by any of the SPs though sought for. This resulted in non-realisation of police cost of ₹ 5.49 crore due to non-deployment of the force inspite of specific government order.

After we pointed this out, the SP, Burdwan stated (June 2011) that demand had been raised in two cases involving ₹ 2.47 crore in May 2011 to Indian Overseas Bank and State Bank of India, Asansol Branch for recovery. In the remaining cases the other SPs did not furnish any reply.

Government in their reply stated (July 2011) that Bank cash chests were not ready; so deployment was not made. The reply is not acceptable as the GO was issued in October 1990 and force was deployed in July 2010 in one case. In another case, the GO was issued in July 2005 but deployment was not made till the date of audit (December 2010).

[17] North East Frontier Rly (Siliguri Divn.) for 2005-06 and 2006-07, and South Eastern Rly (Kharagpur Divn.) for 2005-06 and 2008-09.

[18] SPs : Burdwan, North 24 Parganas and Purba Medinipur.

9.3.16 Non-adjustment of police cost for deployment of force to Commercial Check post

The district police authorities deployed police force for guarding Commercial Check posts in West Bengal on the basis of Government order issued on different dates for different check posts by the Home (Police) Department. The order contained instruction for adjustment of the cost of deployment against the Sales Tax (Commercial Tax Authority).

We found in five SP offices[19] that 68 number of police personnel were deployed between January 1981 and September 1985 in five check posts[20] which was also retained till the date of audit. The expenditure of ₹ 8.95 crore in respect of this police force was to be credited to the head of accounts - 2055 'Police' by debiting the head of accounts 2040 'Sales Tax' during the period from 2005-06 to 2009-10. But no attempt was made by the Department for adjustment of police cost at the end of every financial year. This resulted in non-reflection of actual state of performance of Police Department and non-adjustment of police cost of ₹ 8.95 crore by contra credit to the police accounts.

After we pointed this out, SP, Purulia accepted the audit observation involving ₹ 72.11 lakh but did not furnish any report on further action taken. In the remaining cases the other SPs did not furnish any reply.

The Government accepted the audit observation (July 2011). We await for further report on action taken by the Government (October 2011).

9.3.17 Short realisation of escort charges

Under regulation 666(c) of the PRB, 1943 escort charges should be recovered from banks, post offices and other organisations which require deployment of police temporarily for escorting cash. As per instruction of Special Inspector General of Police, West Bengal of December, 2005 escort charges on temporary deployment were to be realised in advance before deployment of the police force.

9.3.17.1 We found in nine SP offices[21] that police force was deployed temporarily between April 2008 and March 2010 to banks, Post offices and Central Government offices. The SPs assessed escort charges in these cases at the rate applicable for the period prior to 1 April 2008 without taking into account the effect of ROPA, 2009. Application of lower rate resulted in short demand and short recovery of ₹ 1.86 crore.

[19] SPs: Purulia, Burdwan, Paschim Medinipur, Coochbehar and Darjeeling.
[20] Sarbani more, Duburdih, Chichira, Buxirhat and Phansideva.
[21] SPs: Darjeeling, Coochbehar, Nadia, Paschim Medinipur, Purba Medinipur, Burdwan, Birbhum, North 24 Parganas and Purulia.

9.3.17.2 In two SP offices[22] police force was deployed temporarily during 2005-06 to 2009-10 in 48 cases for escorting cash to three post offices but the SPs did not raise demand of escort charges for ₹ 37.68 lakh.

9.3.17.3 In five SP offices[23] police escorts were deployed to different organisations but escort charges were not realised in advance in 192 cases by the SPs and the delay ranged between 19 and 390 days. Out of 192 cases, in 88 cases escort charges of ₹ 2.10 lakh was not realised whereas in 104 cases escort charges of ₹ 24.88 lakh was realised short.

The Government in their reply (July 2011) did not furnish specific reply and in 192 cases accepted the audit observation.

9.3.18 Short realisation of police cost relating to cultural programme/ musical shows etc.

Under regulation 666(c) of the PRB, 1943, the Superintendent of Police of the district may supply temporary police guard to a private party at his own discretion.

We found in seven SP offices[24] that in 246 cases police force was deployed for cultural functions during the period from April 2008 to March 2010 on requisition placed by the organisers for peaceful conduct of the programmes. The daily rate of deployment of police force was revised due to enhancement of pay and allowances after introduction of ROPA, 2009. The effect of revision was not taken into account by the SPs while raising demand in these cases. This resulted in short realisation of police cost of ₹ 47.41 lakh.

The Government in their reply (July 2011) stated that the rate has been revised since 25 May 2011. The reply is not acceptable as the G.O. of May 2011 prescribed average basic pay/daily rate based on fitment table of ROPA, 2009.

9.3.19 Non-realisation of police cost for election duties in other states

State Armed Police Force (SAPF) are kept under the control of the Commandants in the districts. As per the existing arrangement, the West Bengal Police Directorate (WBPD) deploy SAPF in other states for election duty for maintenance of law and order. The DG & IGP, WB assesses the deployment cost, forwards the claim to the Deputy Secretary, Home (Police) Department (DS/Home) who raises the demand against the requiring state(s) for recovery.

We found from the records of DG & IGP and Home (Police) Department that the police force was deployed in the Lok Sabha Elections and State Assembly Elections of five states but police cost was not assessed and demanded in two cases and in the other two cases though demand was raised, the dues were not realised till the date of audit (May 2011) as shown in the following table:

[22] SPs: Birbhum and Purba Medinipur.
[23] SPs: Purba Medinipur, Burdwan, North 24 Parganas, Purulia and Bankura.
[24] SPs: Purulia, Bankura, North 24 Parganas, Burdwan, Purba Medinipur, Birbhum and Nadia.

(₹ in lakh)

Sl. No.	Name of the borrowing States	Purpose of deployment of force	Amount of police cost realisable	Period of demand	Remarks
1	Bihar and Punjab	Assembly Election	28.96	October 2005 and February 2007	Demand raised by the DS (Home) in April 2011
2	Punjab	Assembly Election	13.27	February 2007	Demand not assessed by the CP Kolkata
3	Madhya Pradesh, Rajasthan and Chhatisgarh	Assembly Election	8.32	November 2008	Demand was not raised by the DS (Home)
4	Bihar	Lok Sabha election	73.60	April 2009	Demand raised by the DS (Home) in February 2010

Lack of initiative on the part of the Department resulted in non-raising of demand of ₹ 21.59 lakh and/or non-realisation of arrears of revenue of ₹ 1.03 crore.

The Government in their reply stated (July 2011) that follow up action would be taken. We await further report on action taken by the Government for realisation of police cost (October 2011).

9.3.20 Other irregularities

9.3.20.1 Unserviceable vehicles not found in depot for disposal

The Government of West Bengal, Transport Department issued guidelines regarding the normal life of state Government vehicles and formation of a Condemnation Testing Committee and its role for declaration of vehicles as condemned for ultimate disposal in auction.

We found in the office of the Assistant Commissioner of Police, Police Service Depot, Kolkata (AC/PSD) that in June 2009 AC/PSD informed all the Deputy Commissioners (DCs) and Motor Transport Officers (MTOs) about the disposal of 330 condemned vehicles (188 vehicles and 142 Motor Cycles) of Kolkata Police. The DC, Wireless Branch, the nominated Chairman of the Condemnation Testing Committee (CTC), directed three inspectors to trace the existence of the vehicles in the scheduled locations. From the case records, it was observed that 147 (80 cars and 67 motor cycles) out of 330 vehicles could not be traced by the inspectors. AC/PSD directed the inspectors to locate the untraced vehicles and to submit a report by 6 August, 2010 but no report was submitted till the date of audit (May 2011).

From the latest sale value of vehicles and motor cycles as available from tenders held in June 2010 organised by Metal Scrap Trading Corporation (MSTC) the value of 147 untraced vehicles had been worked out to ₹ 35.56 lakh.

After we pointed this out, the AC/PSD - Kolkata stated (September 2011) that out of 183 vehicles available for disposal, 177 vehicles had been disposed of in auction on 11 August 2011 at ₹ 40 lakh.

The Government in their reply stated (July 2011) that matter would be scrutinised and final reply would follow.

9.3.20.2 Non-disposal of condemned vehicles

Sale proceeds of unserviceable and condemned vehicles of the police establishment form part of police receipts.

We found in four SP offices[25] that though 87 Departmental vehicles were declared unserviceable between June 2003 and March 2010, the reserve price was not fixed in eight cases. The competent authority did not take any action for sale of 79 vehicles in auction though their reserve price was fixed in March 2010. The vehicles were lying undisposed for a period between 12 and 81 months resulting in deterioration of their condition. Non-disposal of 78 condemned vehicles resulted in non-realisation of government revenue of ₹ 9.74 lakh.

After we pointed this out, SP, Purulia admitted (July 2011) the audit observation in 19 cases involving ₹ 4.15 lakh and stated that prompt action would be taken. SP, North 24 Parganas stated (September 2011) that nine vehicles had been sold at ₹ 2.79 lakh in June 2011. In the remaining cases the other SPs did not furnish any reply.

The Government in their reply stated (July 2011) that 51 vehicles of Burdwan are lying pending with WBPD.

[25] SPs: Burdwan, North 24 parganas, Purba Medinipur and Purulia.

9.3.20.3 Non-disposal of unclaimed properties

Under the provisions of the Police Act, 1861, a police officer shall take charge of all unclaimed property and will furnish an inventory thereof to the Magistrate of the district or any other Executive Magistrate authorised. The Magistrate or the Executive Magistrate so authorised may issue a proclamation under the Act. If no person claims the property within six months from the date of such proclamation, the property would be sold under the order of the District Magistrate or Executive Magistrate authorised in this behalf.

We found in two SP offices[26] that in 66 cases 139[27] articles seized between 1999-2000 and 2009-10 were lying in the police stations for a period ranging between eight and 59 months. The inventories of the articles were not furnished to the Magistrate or the authorised Magistrate for issue of proclamation. Lack of initiative by the police stations to send inventories of articles to the Magistrate resulted in non-disposal of unclaimed properties.

The Government in their reply stated (July 2011) that district police offices had been directed to take necessary action.

9.3.21 Lack of monitoring in case of lapsed arms licence

Under the provisions of the Arms Act, 1959, any person having in his possession any arms and ammunitions has in consequence of expiration or revocation or by any other reason whatever ceased to be lawful shall without delay deposit the same either with the officer in charge of the nearest police station or with a licensed dealer.

We found in the office of CP, Kolkata that issue and renewal of arms licences are recorded in the licence register. In 37 cases the validity of licences were found to have been expired between 19 July 2007 and 22 August 2010 but from the licence register it could not be ascertained whether the arms were deposited with the nearest police station or a licensed dealer as per the provisions of the Act.

In the absence of regular reviewing of arms licence, evasion of Government revenue could not be ruled out. Lack of monitoring over the unlawful possession of arms may also create a law and order problem in the State.

The Government in their reply stated (July 2011) that the matter would be looked into.

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[26] SPs: Birbhum and Burdwan.

[27] Big Vehicles-2, small vehicles-3, T.V.Set-31, fan-83, Maruti car-1, Motor Cycle-17 and video camera-1, Refrigerator-1.

9.3.22 Conclusion

We noticed a number of system and compliance deficiencies in functioning of the Home (Police) Department in respect of assessment and collection of the police cost. Absence of specific provisions in the Police Regulations of Bengal governing the function of the Department, adversely affected the collection of revenue. Non-revision of average basic pay after implementation of ROPA, 2009, non-revision of the license/certificate fees for hotels/ restaurants/bars/shops and absence of provision of interest for non/delayed payment of police cost adversely affect the revenue realisation. There was lack of initiative for claiming reimbursement of police cost from the Central Government and other states regarding agency functions and election duty respectively. Weak control mechanism of the Department led to non-realisation of police cost from the organization as per sanction strength of police force, escort charges from banks, post offices and other central government offices. Considerable amount of government revenue remained un-realised due to non-disposal of condemned vehicles and unclaimed properties.

9.3.23 Summary of recommendation

The Government may consider the following recommendation for proper assessment and collection of police receipts:

- Revising the average basic pay after implementation of ROPA, 2009 in the light of government orders of June 2006;
- Revising the rates of license and certification fees for hotels, restaurants, shops etc. for augmentation of revenue;
- Incorporating the provision of interest in the PRB for non/delayed payment of police cost;
- Prescribing the format of control register, demand and collection register etc. for better control over the assessment and collection of police cost and uniformity of record maintenance in the sub-ordinate offices;
- Prescribing fixed rates for deployment of police depending on the nature of the occasion/number of policemen to be deployed/population size. The entire arrangement may be computerised, so that the rates are made available on the website and the database on such deployment and realisation of police receipts are also maintained, updated and monitored by the police authority in a transparent and systematic manner.
- Adopting a policy for realisation of police cost from the IPL authorities; and

- Strengthening the internal control mechanism to obtain re-imbursement of expenditure from the Central Government, efficient realisation of escort charges and prompt disposal of condemned vehicles and unclaimed properties.



Kolkata
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New Delhi
The

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Appendix

Annexure – I

(Ref: Para-1.4)

Units planned and audited in 2010-11

Department	Revenue Head	Total auditee units	Total auditable units	Audit planned	No. of units audited	Nature of Audit
Commerce & Industries	Non-ferrous mining and metallurgical industries	5	2	2	2	Receipts
Finance (Revenue)	Agricultural Income Tax and Amusement Tax	22	8	7	8	Receipts
	Non-judicial Stamp Duty	18	6	2	3	Receipts
	Profession Tax	29	10	10	10	Receipts
	Sales Tax	84	39	37	37	Receipts
	Stamp Duty And Registration Fees	237	80	50	50	Receipts & Expenditure
	Electricity Duty	17	6	2	2	Receipts
Forest	Forest Receipts	52	23	11	12	Receipts
Irrigation & Waterways and Others	Departmental Receipts	34	15	5	5	Receipts
Land & Land Reforms	Land Revenue	40	18	10	10	Receipts
State Excise	State Excise	23	11	7	7	Receipts
Transport	Motor Vehicles	27	14	11	13	Receipts
Total		**588**	**232**	**154**	**159**	

Annexure – II

(Ref. Para No. 4.7.9)

(₹ in lakh)

	Name of FL manufactory	Year of renewal	Licence fee payable (in ₹)	Licence fee paid (in ₹)	Non/Short /delayed payment of licence renewal fees (in ₹)	Period of delay up to 31.03.10 (days)	Late fee realisable @ ₹ 300 per diem. (in ₹)	Remarks
1.	United Spirits Limited, Hooghly	2006-07 to 2009-10	8.0	4	4	01.04.06 to 31.03.10 = 1461 01.04.07 to 31.03.10 = 1095 01.04.08 to 31.03.10 = 730 01.04.09 to 31.03.10 = 365 3651	3651 days X ₹ 300 = ₹ 10.95	The licensee paid FL manufactory licence renewal fees @ ₹ 1 lakh per year instead of requisite fee @ ₹ 2 lakh per year vide Rule 7 (vi) of the WBE (FL) Rules, 1998. The balance amount of ₹ four lakh was paid on 18 November 2010.
2.	United Spirits Limited, Asansol	2007-08 to 2009-10	0.06	0.03	0.03	01.04.07 to 31.03.10 = 1096 01.04.08 to 31.03.10 = 730 01.04.09 to 31.03.10 = 365 2190	2190 X ₹ 300 = ₹ 6.57	Compounding & blending licence fees payable @ ₹ 2000 per year vide rule 214 (1) of the WBE (FL) Rules, 1998.
3.	Madhusala Drinks Pvt. Ltd. Budge Budge, South 24 Parganas.	2005-06 to 2007-08	0.09	NIL	0.09	01.04.05 to 31.03.10 = 1826 01.04.06 to 31.03.10 = 1461 01.04.07 to 31.03.10 = 1096 4383	4383 days X ₹ 300 = ₹ 13.15	Compounding & blending licence fees payable @ ₹ 2000 and licence renewal fee for bottling @ ₹ 1000 per year respectively vide rule 214 (1) of the WBE (FL) Rules, 1998.
4.	IFB Agro Industries Ltd., Mahestala, South 24 Parganas	2005-06 to 2008-09	0.08	0.04	0.04	01.04.05 to 31.03.10 = 1826 01.04.06 to 31.03.10 = 1461 01.04.07 to 31.03.10 = 1096 01.04.08 to 31.03.10 = 730 5113	5113 days X ₹ 300 = ₹ 15.34	Compounding & blending licence fees payable @ ₹ 2000 per year vide rule 214 (1) of the WBE (FL) Rules, 1998.
Total:							**46.01**	

Annexure III
(Ref. Para No. 4.7.11)

Statement showing short-realisation of excise duty due to short production of beer

Year	Raw materials consumed	Quantity of raw materials (in KG)	Minimum yield of wort as per Excise manual (in BL)	Yield of wort shown by the brewer (in BL)	Short yield of wort (in BL)
2008-09	Malt	38,53,856.00	20449679.60		
	Rice Flake	18,96,700.00	10688270.25		
	Sugar	6,74,654.00	4346631.04		
Total		**64,25,210.00**	**35484580.89**	**29750202.00**	**5734378.89**
2009-10	Malt	48,53,149.00	25752218.58		
	Rice Flake	25,45,127.00	14342281.44		
	Sugar	7,12,580.00	4590979.00		
		8110856.00	**44685479.02**	**38307654.00**	**6377825.02**
			80170059.91	**68057856**	**12112203.91**

Year	Minimum yield of wort as per Excise Manual (in BL)	Actual yield of wort shown by the brewer (in BL)	Short yield of wort (in BL)	Short yield of beer 94.41% of short yield of wort (in BL)	Minimum Excise Duty leviable @ ₹ 13 per BL (in ₹)
2008-09	35484580.89	29750202	5734378.89	5413827.11	70379752.43
2009-10	44685479.02	38307654	6377825.02	6021304.60	78276959.82
					148656712.25

Basis of calculation:

1 Bushel malt or 32 pound of rice flake or 28 pound of sugar each would produce 18 gallons of wort (para 677(17) of the Excise Manual)

Conversion:

1 Bushel = 34 pound = 15.42 Kg
32 Pound = 14.52Kg
28 Pound = 12.70Kg
18 Gallons = 81.823 BL

Hence, 15.42 Kg of Malt or 14.52 Kg of Rice flake or 12.70 Kg of Sugar would produce 81.823 BL of wort.